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Latin America Report

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LATIN AMERICA REPORT

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KEY POLITICAL FIGURES ON GOVERNMENT ANTI-INFLATIONARY MEASURES

Buenos Aires CLARIN in Spanish 15 Mar 87 pp 8-9

[Interview with Alvaro Alsogaray, Eduardo Curia and Rogelio Frigerio; date and place not given]

[Text] [Question] Will the government measures succeed in bringing inflation down?

[Alvaro Alsogaray's answer] The effects of the plan will depend on the level of coercion the authorities apply to make the price freeze and control really work. The greater the coercion, the lower the indices, but there will also be shortages and black marketing. The less coercion there is, the higher the indices will be. The procedure is not a new one. It has been tried, always with negative and sometimes catastrophic results, over a period of more than 4,000 years (see the book by Schuettinger and Butler entitled "Forty Centuries of Price and Wage Controls--How Not To Combat Inflation"). The indices in the coming months are entirely unimportant, inasmuch as they will reflect nothing but the official decision coercively imposed.

[Eduardo Curia's answer] The "double" freeze is the culmination of the increasing haziness of the economic policy. It was made inevitable by the weakness of the expedient measures undertaken in 1986, which ended with quasi-orthodox monetary severity, scheduled industrial prices and wages, while other prices were free or indexed.

There is less enchantment and enthusiasm than during the earlier freeze. While in that instance "light" seemed to be separated from "darkness," now, both before and after the freeze, there has been nothing but gray. Activity has not declined "so much" while inflation has not been corrected "that much." It has not meant much more than that.

Technically there are doubts resulting from the "leakage" of industrial prices and the limitations of the wage policy, which has not even been entirely completed, and the lack of strict reliability in the "interest rates-exchange gap" interplay."

[Rogelio Frigerio's answer] It has been more than anything else a great frustration for all the Argentine political and social leaders, because we

have not been able to reach the necessary agreement for reflection about the past in order to convert it into shared experience enabling us to build the future. The economic team, most certainly urged on by the decision of the president of the republic to provide the people with real responses which made him into their guide, have become complacent about the immediate success achieved in 1985 in bringing inflation under control, and it has attempted to repeat that formula when the failure we predicted became evident. The economic team utilized the relative price structure to "prepare" for the freeze, and consequently it again generated a flow of resources toward the state to finance public expenditures and thus to reduce the deficit, which, as everyone knows, was a requirement of the creditor bank.

In order for the scheme to function, control of credit and the monetary mass was tightened up, and enterprise wages and profitability were to be cut back still further. Despite some unorthodoxies in the secondary aspects, the traditional recessive adjustment was repeated, although in this case with a margin for maneuvering so narrow that the government will have to forget appearances and will be forced to bring in foreign goods and supplies in order to avoid a new price spiral.

[Question] Who gains and who loses with this measure?

[Alvaro Alsogaray's answer] No one wins, except in occasional instances when the initial adjustment is made. Everyone loses with the reform, since it does not resolve any problem but maintains the trend toward further economic decline and the impoverishment of the people which has been observed for some time, and since the so-called Austral Plan was implemented, in particular.

[Eduardo Curia's answer] Industry shows the most complicated situation, relatively, in the scheme. In 1986, it had to deal with the free or indexed prices in other sectors. Why not expect outbursts of "slippage-shortage?"

The wage policy shows a certain measure of indecision. Those who are closest to the edge will lose, while those who are less so will be better off. And the more this latter situation is true, the less the outbursts mentioned can be excluded.

The farm sector is enjoying gentler treatment. Devaluation is not being offset and its prices are freer. Many services will profit from their exemption from control. The state has halted the process of rate recovery and is relying on a tax effort based on a dubious procedure. In any case, the majority "loses" without a positive growth strategy.

[Rogelio Frigerio's answer] Speculators, both domestic and foreign, have benefited, since they have found business excellent here since the exchange table was established in our country, along with positive real interest rates. This marriage of exchange and other rates under the Martinez de Hoz administration generated dollar income of 48 percent in 1 year. With the austral, these parasitic earnings climbed to 96 percent, or in other words doubled, and without involving any risk, because the state guaranteed everything then, as it does today. Consider whether this does not mean the reign of speculation which the well-informed "city" operators calculated meant

income in excess of 50 percent during the exhausting days when the refloating of the austral was being planned. If one asks about the origin of the resources which paid for this speculative income, one can very easily see that those who were harmed by the Austral Plan are the Argentine workers who are sacrificing ever greater portions of their income, and the national businessmen who are seeing their rate of profit disappear almost entirely. Viewed properly, this is one of the faces of the same coin, and therefore, on the national level, one pole cannot prosper if the other lags behind."

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CSO:3348/253

ECONOMIC PICTURE FOR 1987, GOVERNMENT OBJECTIVES OUTLINED

Buenos Aires MERCADO in Spanish 19 Mar 87 pp 16-18, 20, 22, 24

[Text] First, a description of the concrete facts.

In order to achieve the desired goal of a new level of growth and to bring about substantial reduction in the rate of inflation, the authorities have drafted the following economic scenario for 1987.

The gross domestic product will reach 125 billion australs, representing a 4 percent increase over the 120 billion reported at the end of 1986.

The sum needed to finance the national budget for this year will be 3,150,000,000 australs, resulting from expenditures of 39,050,000,000 and resources of 35,901,000,000. This represents a 2.5 percent deficit in terms of the gross domestic product, because the expenditures will come to 31 percent and the resources to 28.5 percent of its total.

Despite the jump of about 20 percent in retail prices during the first quarter, the authorities maintain the hypothesis (at least publicly) that the annual average rate of inflation in retail prices will be 42 percent.

The trade balance will reach \$2,485,000,000, resulting from exports totaling \$7,725,000,000 and imports totaling \$5,250,000,000.

The deficit in the balance of payments current account will be \$2,227,000,000, while the overall balance of payments deficit will be \$1,680,000,000.

The foreign debt will increase to \$2,555,000,000.

The financial program designed to finance the imbalances in the foreign accounts will involve a total of \$4,865,000,000. This total will include 120 million representing Club of Paris reprogramming; 715 million from the World Bank and the Inter-American Development Bank; 1,380,000,000 in support from the International Monetary Fund (standby and compensation for export drops); and 2,150,000,000 representing the contribution of commercial banks and foreign governments. The point in greatest dispute is the sum of 3,530,000,000 corresponding to the IMF, banks and governments. While the officers of the Fund have already approved that body's operations, additional

sums totaling 2,150,000,000 are being negotiated with the banks and governments so that all of the resources can begin to be used in synchronized fashion. While the discussions with the banks continue, Argentina received a "bridge loan" of \$500 million in funds from 12 industrialized nations led by the United States.

The official rate of exchange will be indexed on the basis of the rate of inflation for wholesale prices.

Reduced Currency Issues

The figures set forth in the 1987 budget represent a better organization of official management on the one hand, in comparison to last year, but on the other, they assume a lower rate of growth in economic activity. The expenditures, which came to 31.7 percent of the gross domestic product last year, will account for only 31 percent this year, while resources will increase from 28.1 percent last year to 28.5 percent in 1987. The deficit, which represented 3.6 percent of the gross domestic product last year, will account for only 2.5 percent in 1987. If for purposes of comparison one looks at the deficit in 1983, which was the last year of the preceding military administration, the 2.5 percent level mentioned above, as compared to the 16.8 percent in that era, reflects the effort made by the present authorities. This reduction of 14.3 points in the gross domestic product deficit is the result of a reduction of 9 percent in expenditures and an increase of 5 percent in resources. If it is achieved, the 1987 goal would mean a reduction of 85 percent in the deficit as compared to 1983 in a period of 4 years.

On the other hand, the deficit in the public sector will not be covered by monetary emissions, but will be financed with foreign credit. Another important aspect is that in 1983, only 60 percent of the public expenditures were financed with currency issues, which gave rise to the initiation of an inflationary process with extraordinary inertial force.

This situation was corrected, year after year, and by 1985, 83 percent of the expenditures were supported by genuine resources. The goal for 1987 is more ambitious--coverage of expenditures with genuine resources will reach 92 percent. It becomes clear that the policy being pursued seeks to eliminate currency issues, and that the implicit inflationary tax is being replaced with explicit resources. In addition, a lower level of public expenditures is being financed in noninflationary fashion.

In 1983 a record was set, not only in terms of the deficit as a percentage of the gross domestic product (16.8 percent), for it was also the year with the highest expenditures, coming to something in excess of 40 percent of the gross domestic product. The reduction in expenditures from that year to the budgeted figure for 1987 will be 23 percent.

**Principle Macroeconomic Indicators
(1986 estimates and 1987 hypotheses)**

Category	1986	1987
Gross Domestic Product (variation from preceding year in percentage)	5.5 %	4 %
Gross Industrial Product (variation from preceding year in percentage)	13.0 %	8.5 %
Annual Inflation (retail prices)	80.0 %	40.5 %
Expenditures (percentage of gross domestic product)	31.7 %	31.0 %
Resources (percentage of gross domestic product)	28.1 %	28.5 %
Deficit (percentage of gross domestic product)	3.6 %	2.5 %
Foreign Exchange Rate (base year 1984 = 100)	111.6	108.2
FOB Exports (millions of dollars)	6,987	7,735
CIF Imports (millions of dollars)	4,700	5,250
Trade Balance (millions of dollars)	2,287	2,485
Balance of Payments Current Account Deficit (millions of dollars)	2,641	2,227
Balance of Payments Deficit (millions of dollars)	2,150	1,680
Increase in Foreign Debt (millions of dollars)	770	2,555

Source: Documentation sent to the creditor banks by the Secretariat of Finance.

Balance of Payments

On the basis of an improvement in foreign trade and the financing of foreign obligations, the authorities hope for a 22 percent reduction in the balance of payments deficit, which was \$2,150,000,000 in 1986, to \$1,680,000,000 in

1987. Exports would reach \$7,735,000,000 (up 11 percent from 1986), imports would reach \$5,250,000,000 (up 12 percent from 1986), and the trade balance would be \$2,485,000,000 (up 9 percent from 1986).

In the midst of what was seemingly a scenario which the authorities could reasonably manage, the inflationary upsurge of January, February and March erupted like a rocket, and it forced a change in the Austral Plan to what might be called the Australito. The decision to introduce the changes was in response to a "suggestion" from President Alfonsin, and it was implemented by the Sourrouille cabinet, which was given a kind of political "ultimatum." Things could not continue as they were in a year in which the elections in the province of Buenos Aires are of vital and overwhelming importance in terms of the coming presidential election in 1989.

It was incomprehensible to the president that if everything was being controlled by his economic officials--interest rates, exchange rates, wages, tariffs, and the prices of various goods--inflation could be rising at 7 percent per month, the official dollar rate could spiral and there could be a gap of more than 30 percent for the free dollar, while the cost of money, in real terms, was setting world records, auguring the advent of a fearful recessive process.

The solution chosen by Sourrouille, who has been characterized by a tendency to multiply controls and state intervention, replacing market mechanisms, was to impose the harshest possible freeze on prices as a way of gaining time, and, having no better solution in hand, waiting for the next inflationary attack. The minister relied on a measure which pleased a broad range of radicals, i.e., price freezing. Sourrouille knows that the majority of Alfonsin's party colleagues believe in the "theory of the wickedness of the businessmen and the workers." If things go badly, it is because solidarity in the conduct of the businessmen and workers is lacking, and not because the economic measures are inconsistent. Sourrouille had no better remedy than to proceed as one of his predecessors, Dr Martinez de Hoz, did, when he had to impose a freeze for 120 days in April of 1977 because of political pressure from the military commanders. It is obvious that in desperate cases, a freeze is an attractive alternative for the short run.

But the most important thing is that before the plan we have called the Australito emerged, certain members of the economic team had developed some very potent ideas which could serve as a bridge to a serious solution when the dynamism of the present short-term effort ends. Many of these ideas, which are a part of a real long-term program, are reflected in the 1987 budget, but they have not been understood by the majority of Argentine society. The architect of this new policy is Mario Brodersohn, the secretary of finance, who in addition has the responsibility for foreign debt negotiations. In Brodersohn's view, the 1987 national budget and a new long-term economic scheme, together with the settlement of the accounts in the foreign sector, are two faces of the same coin.

The secretary of finance, who curiously enough is one of the few radicals on the economic team, believes the Argentine policies were developed because of the dilemma as to whether to bring about domestic balance at the cost of

Indicators of Domestic Imbalance

Category	1980	1981	1982	1983	1984	1985
Foreign debt *						
(millions of dollars)	27,308	33,308	43,726	46,009	45,839	48,312
Public sector's portion of foreign debt (in percentage)	53	56	66	72	79	87
Trade balance disparity (millions of dollars)	-2,519	-287	2,287	3,331	3,523	4,584
Fiscal deficit (percentage of gross domestic product)	7.5	13.3	15.1	16.8	12.8	5.9
Annual inflation rate (wholesale prices)	57.5	180.2	311.3	411.3	625.7	364.0

*Note: Data from the Secretariat of Finance World Balance.

a serious foreign imbalance, leading to a balance of payments crisis, or on the other hand, to correct the imbalance while paying a high price in terms of domestic imbalances, such as high inflation, profound recession, high fiscal deficit, and a drop in real wages and the quality of life.

The Foreign Debt

Brodersohn warns that this scheme has become more sensible in recent years as a result of the foreign debt. The fiscal debt, which had been at approximately 6 percent of the gross domestic product from 1977 to 1979, rose to 15 percent between 1981 and 1983. Faced with a serious crisis in the foreign sector, the government effected a devaluation in nominal terms of 2,200 percent between February 1981 and December 1982, and in order to avoid a generalized collapse of the private sector as a result of this devaluation, the authorities decided to grant subsidies, through foreign exchange insurance operations, covering 60 percent of the private foreign debt.

Because of this measure, the public sector had to absorb a vast amount of the devaluation. It had to subsidize the private sector, protecting it from the impact of devaluation, and it also took charge of almost all of the private foreign debt. Certain figures are significant. With a foreign debt totaling \$27,308,000,000 in 1980, the public sector had 53 percent of the obligations and the private sector the remaining 47 percent. By 1985, everything had changed. With a foreign debt of \$48,312,000,000, the public sector was responsible for 87 percent of the commitments.

"And, naturally," Brodersohn adds, "the state had to pay the interest on this debt. If we did not have to make payments on the burden transferred, the national budget would show a surplus. On the other hand, many sectors of the private economy which transferred the burden of the debt they had contracted to the state then joined in the protest about the public finance deficit, as if this transfer had not caused a real government collapse. To top it all,

Financing of the Public Sector
 (all figures are percentages of the gross domestic product)

Category	1980	1981	1982	1983	1984	1985	1986	1987
Expenditures	35.3	38.9	38.5	40.4	35.6	33.8	31.7	31.0
Resources	27.8	25.5	23.4	23.6	22.8	27.9	28.1	28.5
Fiscal deficit	7.5	13.4	15.1	16.8	12.8	5.9	3.6	2.5
Genuine resources (resources as a percentage of expenditures)	79.0	66.0	61.0	58.0	64.0	83.0	89.0	92.0

Source: Secretariat of Finance

many of the businessmen who are complaining about public finance adopt an attitude which would be appropriate if they were unininvolved absentees."

It is within this context of foreign and domestic restrictions that a scheme which, strictly speaking, is not new, but which circumstances have made a reasonable solution, has appeared.

According to Brodersohn, the present administration has achieved various successes in the battle against inflation, in reducing the fiscal deficit and in avoiding new recessive cycles. "However," he has said, "the expectations of society go beyond these achievements. The people are demanding profound structural changes which will make it possible to leave the climate of recession accompanied by paralysis behind." There will have to be two changes--opening up the economy and reducing the dimensions of the public sector, while at the same time making it more efficient.

Opening Up the Economy

These are both things it is difficult to achieve. The economy of Argentina has been extremely closed in the past 50 years, and this gave rise to monopolies and oligopolies which are hardly likely to accept international competition. The strategy proposed is designed to establish ever more and better links between the Argentine economy and international trade, and a more open approach is necessary both in order to reduce foreign restrictions and to increase the level of social well-being.

However, it is not possible to ignore the context within which an effort is being made to realize this idea. On the one hand, the weight of the foreign debt makes it necessary to generate a positive trade balance on the basis of reduced imports, while on the other, the main Argentine export sector, which produces farm products, faces the problem of subsidies in other countries.

Between 1980 and 1986, the volume of Argentine exports increased 50 percent, but prices fell 30 percent, and the United States, the European Common Market and Japan subsidized their farm production. It is estimated that Argentina will lose some \$7 billion in income in 1985, 1986 and 1987 as a result of the decline in international prices. The opening of the economy has two aspects.

1987 Balance of Payments
 (in millions of dollars)

Current accounts	- 2,227
Trade balance	2,485
FOB exports	7,735
CIF imports	- 5,250
Real services	- 296
Financial services	- 4,421
Transfers	5
 Capital account	 547
Direct investment	100
Financing of exports	- 114
Financing of imports	6
Loans from international bodies	510
Government bonds and promissory notes	20
Private debt with exchange guarantee	- 289
Commercial credit	- 96
Other	410
 Balance of payments deficit	 - 1,680
 Financing of balance of payments	 1,680
 Reserves (increase)	 - 833
ALADI	81
Bonex 1982/84	- 335
IMF amortization	- 562
Bank of the Nation bonds	- 25
Club of Paris refinancing	640
Club of Paris amortization	- 215
Bank financing	2,150
Central Bank obligations	- 116
IMF payments	1,380
Cancellation of arrears	- 485

One is the increase in industrial exports, which with the fiscal cost of \$300 million, should increase by something over 30 percent in 1987, as compared to 1986. And the other aspect, the more polemic, involves eliminating the prohibitions on imports (this is the case for the automotive industry) and lowering customs duties. The magnitude of the reductions and the time over which they will be made have been subjects of dispute in the economic team.

The more protectionist wing includes Secretary of Industry and Foreign Trade Roberto Lavagna and Minister Sourrouille himself. Secretary Brodersohn and Secretary for Economic Coordination Adolfo Canitrot favor greater dynamism.

Transfers to the Private Sector

The other forceful idea which has emerged has to do with the dimensions and efficiency of the state. "The state," Brodersohn has said, "has wanted to do

everything, and in the final analysis it does nothing, and the little it does it does badly. Nowadays the state has become the focus of widespread social dissatisfaction, and this trend has adopted a particularly critical form in Argentina. The state has reduced its specific functions in the realms of justice, education, health and safety in order to make inefficient incursions into the realm of industrial production and other activities."

One of the goals is to reduce the size of the public sector by selling the businesses now in its hands in the oil chemical, metallurgical and aviation sectors to the private enterprise sector. The effort to transfer businesses to the private sector will be governed by two principles. The government will guarantee that the transfer of enterprises from the public sector to private interests will not presume such a transfer for the monopolies, and to achieve this goal, the transfer of public enterprises to the private sector will be carried out parallel with the gradual deregulation of the related sectors, so as to increase competitive capacity and improve efficiency. Where the second aspect is concerned, the funds obtained from the sale of public enterprises will be used to finance priority productive investments.

On another level, an effort will be made to effect changes in the management of public administrative departments and the compensation levels for the central administration. And, with a view to promoting new investments by the private sector, a new scheme for capitalizing the foreign debt will be put into effect.

The government has formulated a program which in its judgment will incorporate the benefits received from the option to pay in advance, while at the same time avoiding the most nefarious fiscal and monetary effects of this option. The program is optional for the debtor, and participation in it will require the consent of the creditor.

It will function as follows. In compensation for the saving in costs, the debtor will pay a premium for early payment of the guaranteed contract. The creditor will be asked to accept a debt instrument from the public sector similar to those used for other types of public debt, whether it be for the part of the obligation for which the government is responsible as a result of the foreign exchange guarantee contract, or for the whole of the debt guaranteed, if the debtor pays the agreed upon insurance premium. In both cases, the premium for early payment will be deducted.

The debtor in the private sector can continue to owe his creditors the difference between the debt assumed by the government and the original amount. This amount is removed from the records of the Central Bank, and therefore the debtor does not have the right to purchase foreign exchange on the official exchange market. A special procedure is provided for those cases in which local banks served as intermediaries.

The government hopes that acceptance of this program will be widespread.

The experience obtained through this program, which was put into effect during a period of almost hyperinflation in Argentina, showed two things. They were that private lenders and creditors found it attractive and that it had certain

serious negative effects. The latter included high costs, in terms of a growing quasi-fiscal deficit for the Central Bank while it tried to absorb the excess liquidity produced on the market; the reorientation and concentration of available credit in the private sector, with the resulting effect on the monetary market; the possible loss of foreign financing for the economy in general; and adverse effects on the level of inflation, mainly due to the difficulties in satisfactorily compensating for the monetary effects of this expansive program, which came on top of the other prevailing inflationary pressures such that the flight of capital might have been revived. Therefore, the program put into effect in accordance with announcement "A" 532 was suspended.

The New Program

In any new program, the authorities explain, the earlier negative experience must be taken into account, and what is equally important, really new investments which would be made if this program for capitalizing the debt did not exist must not be discouraged. In relation to this, it is important to note that in the view of the officials, the mere conversion of the foreign debt into an Argentine domestic debt is not in itself a goal of the new program, unless it is a part of a broader operation clearly designed to increase productive investment.

In order to achieve these goals, a program to capitalize the debt must be consistent with the following basic principles:

--The amount of the conversion must be provided by new funds in a proportion of no less than a dollar of new money for each dollar (at its nominal value) of the converted debt. These new funds must come into Argentina as freely available foreign exchange and must be sold to the Central Bank through the official foreign exchange market, being defined for this purpose as capital investments or long-term loans benefiting the same enterprise which benefits from the product of the debt conversion.

--Both the funds in new money and those resulting from the amortization of the national debt leading to the capitalization of the debt may be used only for new productive investments, such as the establishment of new industrial installations or the expansion of already existing ones, and the purchase of new equipment. These funds may not be used to purchase existing stocks in enterprises in the private sector nor to purchase bodies in the public sector. The Ministry of Economy will publish and periodically update rules which will provide a clearer definition on this point.

--The foreign investments made in accordance with this program will be subject to restrictions where foreign remittances are concerned. However, the goal of promoting investments in the program will be taken into proper account.

Administration of the Program

The authorities are contemplating a bidding process in order to guarantee that the decisions pertaining to the approval of offers, with a limited financial budget, will be consistent. While the large industrial products will receive

special treatment, there will always be a need to bring in additional new funds even in these cases, and the conditions (for example, in terms of the proportions of new money) will be no more favorable than those offered through the bidding process.

Finally, because the debt capitalization program exerts the same adverse monetary pressures as the loan renewal program, the adoption of this new plan will require that the Central Bank eliminate any new loan renewal programs.

Repatriation of Capital

The program for capitalizing the debt is a part of a broader one, the purpose of which is to establish the foundations for bringing Argentine capital abroad back into the country. The authorities recognize that the debt capitalization program, the early payment option on foreign exchange guarantee contracts and tax settlement in fact demand a growing economy. Only if such growth exists will it be possible to achieve concrete results from these efforts to reverse the trend toward the flight of capital.

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CSO:3348/253

OIL PRODUCTION PROSPECTS BRIGHTER FOR 1987

Buenos Aires CLARIN in Spanish 8 Mar 87 pp 10-11

[Text] In the oil sector, the plans which have been announced indicate that 1987 will be a year with somewhat better prospects than that just ended. In this connection, bids have been awarded on a first series of contracts for drilling wells; the need to increase oil production to a level in excess of 25 million cubic meters in order to satisfy domestic market demand has been announced (the National Energy Plan called for 25.25 million cubic meters); and, parallel with this, the national executive branch plans to speed up approval of the 10 prospecting contracts involved in the first round of the Houston Plan, to sign the contracts in connection with the 11 areas included in the second call for bids immediately, and to make the program for future bidding more flexible on the basis of more attractive conditions, in which connection a commission has been appointed by the Secretariat of Energy (SE Resolution No 44/87) to amend the contractual model approved by Decree No 1443/85, and to put the standards for future competitive bidding into effect within a period terminating toward the end of next March. The implementation of these plans, logically, will result in an increase in both state and private activity, and it will not admit of any postponement or half measures if, as is planned, the national authorities hope to participate in the World Oil Congress in Houston during the last week of April 1987, profiting from this event to report on what has been done and to reconfirm the appeal of the Argentine government to the main international oil companies which will be represented at this forum.

Thus we are convinced that at this point, it is very possible that the projects designed to increase and optimize oil extraction, to confirm recovered reserves, etc., will be carried out, through the implementation of new exploitation contracts drafted mainly for the domestic companies.

To the extent that these plans are carried out and the pending problems in connection with some contracts with the YPF are resolved, along with an intensification of activity and the reactivation of industry, it will be possible to put to work a substantial volume of the investments so urgently needed to motivate the acceleration of the economy. It is interesting to note that in 1987, it might be possible to make use of some \$30 million, corresponding to the initial investments in the 21 exploration areas in the Houston Plan. This figure could be tripled if the sums in the contracts in

effect were added, after resolution of the pending problems, along with those involved in the new exploitation contracts, to the extent that the bids being solicited are awarded and implemented immediately.

Gas

Where natural gas is concerned, priority must be given to the projects which will produce the greatest yields and will provide the largest supplies, since in 1987 plans call for replacement of the fuel oil which the distilleries of the YPF in La Plata and Lujan de Cuyo will cease to produce with natural gas, thanks to the commissioning of reconversion projects involving many millions. With the agreement reached with the COGASCO on the Center-West Gas Pipeline, the path is cleared for bidding on its operation and expansion without further delay, while at the same time the building of the new Loma La Lata-Bahia Blanca-Buenos Aires section, which will make it possible to meet the requirement of the zone for the coming winter, is under way.

Also, it is essential that an aggressive export policy be pursued in all categories, to recover the markets lost and to win new ones, both for the traditional products and for the others which must be promoted, and in particular for the hydrocarbon and byproduct surpluses which meet international specifications.

Coinciding with the optimism revealed in the analysis of the sectorial prospects for this year, we also expect positive results more generally, based essentially on the national government's conviction that it is necessary to take recovery steps within the framework of a sadly deteriorated economy.

Production Will Drop

To sketch an outline of oil activity in Argentina, we deem it best to review what has happened to overall oil production in the country in the past 4 years first, concluding with an estimate of what is expected for 1987.

1983	28,474,000	cubic meters
1984	27,847,000	" "
1985	26,701,000	" "
1986	25,193,000	" "
1987	23,500,000	" "

If we compare the volume obtained in 1983 with the estimates for 1987, we will see a drop in production of approximately 5 million cubic meters.

In view of the extent of this decline, one can only wonder how it is possible that with such a substantial reduction, we have not yet had recourse to imports.

One first reason has been the substantial replacement of liquid hydrocarbons with natural gas which has occurred in the country in recent years, and which we might estimate at a volume of nearly 3 million cubic meters per year. However, it should be noted that in the immediate future, it will be extremely hard to step up this replacement process, because the current transportation

infrastructures are being utilized today at their maximum capacity level. As a result, more extensive use of natural gas will have to await the extension of the existing gas-pipeline network, and these are projects which take time to complete. The second reason which has enabled us to tolerate the drop in production without recourse to imports, accounting for approximately the other 2 million cubic meters of the decline seen, is the sharp drop in demand due to the weakening of economic activity in the country.

Paths of Action

In view of the picture described, we believe that in order to meet the requirements in the short, medium and long run, it will be necessary immediately and simultaneously to pursue several paths of action which, while avoiding a continuing drop in production, will simultaneously guarantee an increase in our worrisome reserve level.

First of all, we believe it necessary to go deeper into the Houston Plan, which has enabled us to sign 10 exploration and exploitation contracts to date. Of these, three were recently ratified by the national executive branch, and as a result, the projects are ready to begin activity. Another 11 bids have already been awarded and the pertinent contracts are being discussed with the YPF.

We believe it absolutely essential to continue with these bids, since our country now urgently needs to increase its reserves, although we are aware that it is hardly likely that these contracts can lead to production before 1993 or 1994.

Within the context of the Houston Plan, we also deem it most important to make the terms attractive. In addition to the improvement of the contractual clauses, we believe it would be wise to consider the possibility of including in the competition those areas of geological interest which, although they were reserved for the YPF, have not been duly explored because of the budget limitations experienced by that state company. We should place our confidence in the success of the Houston Plan, and in order to do so, we must not leave areas with a geological potential unexplored.

We have already said that the Houston Plan could lead to production within about 6 or 7 years, and we have also pointed to our needs for the immediate future, as well as the present and continuing decline in extraction. In this connection, we believe that it is absolutely necessary to adopt harsh measures to increase the recovery indices for the "reserves in situ."

In order to be able to raise the recovery levels, it is necessary to energize the deposits, to promote pilot projects for secondary and tertiary recovery, and to extend them if they prove successful.

Secondary Recovery

In this connection, it must be remembered that it is not possible to undertake secondary recovery projects in all the deposits, because of their geological characteristics.

The Argentine private enterprises can contribute a great deal in this connection, because they have demonstrated experience in this technological specialty. Proof of this is the fact that 16.38 percent of the national total is produced by secondary methods. However, this figure goes up to 26.98 percent if we consider the effect on the production of our associated enterprises.

Finally, another activity to be undertaken in order to increase production, and with perhaps more immediate results, is the reactivation of the deposits we have defined as marginal.

We mean by marginal those deposits to which the YPF has not devoted the effort which would make better yields possible, either because of the remoteness of the fields, the limited production, or simply for budget reasons.

This is not intended as a criticism of the YPF, but is rather an observable reality in any enterprise of that size, where the major investments and efforts are oriented, as is proper, toward the most profitable deposits. Many of these deposits could be attractive to enterprises smaller than the YPF, and as a result on such a basis, they could cease to be marginal both for the YPF and for the country.

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CSO:3348/253

FOREIGN MINISTER CITES SIX-POINT PLAN TO IMPROVE SERVICE

Bridgetown DAILY NATION in English 26 Mar 87 p 16

[Text]

SENATOR SIR JAMES TUDOR has set out a six-point plan to improve Barbados' foreign policy.

Writing the foreword for a document on Barbados' foreign policy, Sir James implied that Barbados was doing well in international affairs, but all Barbadians could collectively "conduct an even better foreign policy," he wrote.

His six-point how-to-do-it read:

(1) We must try to maintain and raise our standard of living by increasing our output of goods and services at highly competitive prices.

(2) We must convince ourselves and foreigners that our wealth is worth more inside Barbados than outside.

(3) We must keep our foreign debt down. In this way our economy will grow and not shrink. This means, among other things, that we must feed ourselves to a larger extent

than we now do.

(4) We need to maintain and extend our democratic institutions. Merely to have free and fair elections will not be enough.

(5) We need to encourage the strictest accounting of public money to prevent it being siphoned off into private hands.

(6) We must avoid fanaticism of any sort and promote the values of tolerance and fair-play among all citizens.

Added Sir James: "Any country whose citizens accept and apply these principles would still have to conduct its foreign policy in an international jungle, but these principles would, when applied, not amend or repeal the 'law of the jungle' but would guarantee survival to the country which uses them."

/9317
CSO: 3298/207

FOREIGN POLICY STATEMENT COVERS LATIN AMERICAN RELATIONS

Bridgetown BARBADOS ADVOCATE in English 21 Apr 87 p 2

[Text]

The Democratic Labour Party (DLP) Government has ruled out any chances of developing relations with Chile, until the human rights situation in that country improves.

Government's position is outlined in a detailed foreign policy statement just published here by the Foreign Ministry and titled, "Diplomacy and Development."

A section of the statement dealing with relations with Latin American states noted that development of ties with Chile was once a priority of the Government.

"(But)...relations ... have been seriously strained by the departure of Chile from the democratic fold, and the questionable human rights policies practised by the (Augusto) Pinochet regime," the statement said.

"Barbados is a great admirer of the Chilean people, and the democratic tradition that once enjoyed," the statement added.

"It is well aware that there are many areas — both economic and cultural in which meaningful co-operation can be developed.

"Such co-operation cannot, however, be pursued at a formal level until recognition of democratic principles and respect for fundamental human rights return to Chile," the statement said.

However, it said that Barbados would continue to maintain "cordial and correct" working relations with Chilean representatives in international fora.

The Government however stressed the importance of relations with its Venezuela and Brazil.

The report noted that there was "still a long way to go" in developing those ties, which, it said, had been hindered by "an enormous historical, cultural and linguistic gap..." including differences in law, education and colonial experiences.

Bridging the gap

Efforts at bridging the gap were further set back by the Belize-Guatemala border dispute, the invasion of Grenada by the United States in 1983, and the 1982 Anglo-Argentine war over the Falklands in which the English Caribbean adopted stances which were at variance with those of their Latin neighbours.

But the report emphasised the need for Barbados to cultivate its relations with Latin American states, w'th particular attention being focussed on Venezuela, described as "a major ally," and Brazil which the report said was well on the way to becoming one of the world's major economies.

"...Barbados will continue to give priority emphasis within the context of Latin America, to its major ally Venezuela, and will work with that country, and others, to forge a deeper cultural understanding between the Caribbean and Latin America," the report said.

The report cited a number of areas which hold out the possibility for co-operation between Barbados and Brazil, including joint business ventures and tourism.

"Barbados will seek to strengthen its relations with Brazil by concentrating on specific and realistic targets in the areas of trade, tourism, investment and scientific, technological and cultural co-operation," the report stated.

"...Economic realities currently necessitate the use of a non-resident ambassador and an honorary consulate in Rio de Janeiro..." the report said.

The report also covered Barbados' current and possible future relations with other countries in Latin America, but offered no specific, new initiatives. (CANA)

/9317
CSO: 3298/207

HAYNES PRESENTS GOVERNMENT'S BUDGET; OPPOSITION RESPONDS

Text of Haynes Speech

Bridgetown BARBADOS ADVOCATE in English 8 Apr 87 pp A-C

[Text]

Measures to improve the housing stock for low income earners were revealed yesterday by Finance Minister Dr. Richie Haynes in his budgetary proposals.

The measures include a special issue of National Housing Development Bonds in the amount of \$10 million and which will be issued by the Barbados National Bank.

Dr. Haynes said that proceeds of these bonds would be used to cater to the needs of the lower income groups for mortgage finance, and would be disbursed by the Barbados Mortgage Finance Company (BMFC).

The Minister also stated that some \$5 million would be made available to the BMFC and a further \$5 million to the National Housing Corporation (NHC) this financial year.

Following is Dr. Haynes Speech:

FINANCIAL STATEMENT AND BUDGETARY PROPOSALS

"On July 15th, 1986, I had the privilege of introducing the first Financial Statement and Budgetary Proposals of the administration which took office on May 28th.

"The proposals then presented to Parliament represented a bold and innovative approach to the solution of the grave economic and social problems facing the country; such as, stagnation in growth of output since 1981, unemployment rising from 10.7 per cent in 1981 to 18.7 per cent in 1985 and the relentless expansion of the public sector, leading to a misallocation of resources and stifling of personal and corporate initiative.

"The results of the implementation of the policies introduced last July have been very encouraging.

"As a consequence of beginning the process of restoring the proper balance between the private and public sectors, through incentives for productive activity and substantially increasing the scope for discretionary spending, by reducing the burden of taxation, the main economic indicators have begun to move in the right direction.

"There has been an improvement in the economic climate, with output increasing and employment expanding.

"The private sector has responded to the positive developments with important initiatives of its own.

"The proposals contained in the budget being presented this afternoon, therefore seek to build on the success achieved to date and to further the process of economic and social reconstruction.

"The budgetary proposals of July 15th 1986 were designed to strengthen the economy, create employment opportunities, and improve the living standards of all members of the society.

"Those measures have been particularly effective and have contributed substantially to the resuscitation of the economy.

"All of the major sectors expanded and a growth rate of 5 per cent was achieved in 1986 — the highest since 1980.

"In fact on a cumulative basis the Barbados economy between 1980 and 1985 showed an overall negative growth of some 2.0 per cent.

"The level of real income attained in 1986 constitutes an all time record for the Barbadian economy, and is about 3 per cent higher than the previous peak level of income achieved in 1980.

"The increased activity has provided opportunities for the generation of further growth, and for utilisation of the still considerable idle capacity of the economy.

"Our achievement has taken place in a situation where several unfavourable features in the international economy continued to create difficulties for small countries like ours, to earn satisfactory levels of incomes from exported commodities.

"The proposals which were introduced in July, were the first indicators of the Government's new economic strategy, which placed emphasis on a greater role for the private sector, and on the general stimulation of initiatives in the wider community.

"A review of the experiences in the various sectors indicates the further measures which are necessary for restructuring the economy so that a basis can be laid for launching a longer term programme of social and economic development.

"If the opportunities are grasped, as the measures taken for managing the process of economic restructuring continue to have a positive effect, then 1987 should be a year which sees continuing favourable developments.

INTERNATIONAL ECONOMIC DEVELOPMENTS

"There were a few favourable occurrences in the world economy in 1986. The first of these was the achievement of a more balanced pattern of exchange rates between the major currencies. The value of the United States dollar continued to decline while there was a corresponding revaluation of the Japanese yen and the major European currencies. Among the factors influencing the U.S. dollar's decline were:

- the more restrained fiscal stance which has been evident in the United States in the recent past;

- the 1985 Plaza Accord of the Group of Five, which sought to bring about an orderly decline in the U.S. dollar exchange rate; and

- weak economic growth in the United States.

"The second important development, internationally, was the decline in both short and long-term interest rates as a result of the general easing of monetary policy in some of the major industrial countries. The shift in monetary policy

was related to a desire to stimulate economic growth, and was brought about by a general easing of foreign and domestic pressures on price levels.

"The third major feature of the world economy in 1986 was the sharp reduction in the price of oil, which helped consumer prices to continue to fall world-wide. This declining oil price, together with falling prices of other primary commodities helped the industrial countries to benefit from significant increases in real income in 1986.

"Generally, however, 1986 saw a lower rate of expansion in the economies of the industrial countries. As a group, they recorded a growth rate of 2.7 per cent — a decline from the 3.0 per cent recorded in 1985. A weakening of economic activity was evident in Japan, and a swelling trade deficit helped to retard growth in the United States. France and Italy were the only two major industrial countries to record higher growth rates in 1986.

"The unfavourable features of the world economy continued to have an adverse effect on the under-developed countries. In 1986, there was a large shift in terms of trade in favour of the industrial countries — a percentage increase of 8.0 per cent — the highest since 1968 — resulting from the realignment of exchange rates and from the drop in prices of oil and primary commodities. The overall price levels of these primary commodities fell to perhaps their lowest since World War II.

"The result was that while there was some increase in the volume of world trade, the fall in primary commodity prices contributed to a heavy decline in the value of that trade.

"While the volume of the merchandise exports of the under-developed countries increased by about 5.8 per cent over that for 1985, the value of those exports, measured in United States dollars, fell by 7.6 per cent.

"Furthermore, the under-developed countries had to face up to increasing and intensified protectionist measures in some of the industrial countries which made the penetration of those markets with new exports extremely difficult.

"This situation in which the under-developed countries can earn less for the greater volume they export is particularly critical when viewed in the light of the foreign debt they face. Latin America and the Caribbean owed about one-third of the total debt for 1986. Economic reform programmes were instituted in some countries and the fall

in interest rates and oil prices ought to have eased the burden. These potential benefits were however counterbalanced by the continuing weakness in the prices of exported commodities.

"To make matters worse, while lower earnings from exports presented difficulties to the under-developed countries in servicing their external debt, the net transfer of financial resources to these countries was fast becoming negative.

"In many respects, the CARICOM countries, including Barbados, fared better than most of the other under-developed countries and were affected to a lesser degree by some of these global difficulties.

"The global scenario points to the need for small under-developed economies to explore, more rigorously, such opportunities as may exist for putting in place programmes of restructuring that will render their economies less susceptible to the effects of international instability.

Regional Economic Developments

"Generally, the economies of the countries of CARICOM performed better in 1986 than they did in 1985. Trinidad and Tobago was the main exception. Rates of growth accelerated in the region generally, and were spurred by a more buoyant tourist industry and by record banana production.

"The economies of the Less Developed Countries (LDCs) performed better than those of the More Developed Countries (MDCs) — a performance that has been repeated in recent years. Rates of growth in excess of 5 per cent were recorded in St. Lucia, Antigua and Montserrat. Grenada and Dominica experienced rates of 4.6 and 4.0 per cent respectively.

"Barbados' growth rate of 5 per cent was the highest of all of the MDCs, followed by the Bahamas which bettered a 1985 rate of 3.2 per cent. Growth in Guyana was 0.3 per cent while increased earnings from export agriculture and a strengthening tourist industry, helped Jamaica to reverse the negative growth of 1985. Barbados' major CARICOM trading partner, Trinidad and Tobago, experienced a negative 6.4 per cent rate of growth, which followed the negative 2.9 per cent of the previous year.

"There was generally low inflation in the CARICOM countries because of the fall in oil prices and moderate wage increases. Indicators pointed to a worsening unemployment situation, the exception being Barbados which saw a small reduction of the 1985 figure.

"There was a continuation of the difficulties with intra-CARICOM trade, which fell by 13 per cent in the first nine months of 1986. Trade in the region as a whole declined by 30 per cent during the first three quarters of the year. Trade difficulties were caused by restrictive and protectionist measures by some countries and a general insufficiency of foreign exchange. The main source of the decline in 1986, however, was the 13.5 per cent reduction from the 1985 level in CARICOM imports into Trinidad and Tobago.

"A notable feature of the regional economic situation in 1986 has been the continued strong performance of tourism. Stay-over visitors increased by percentages of just under 6 per cent for the region as a whole and 10 per cent for the CARICOM countries. Increases in arrivals from cruise ship passengers were even stronger: 16 per cent for the region as a whole and 20 per cent for the CARICOM countries.

"The most worrisome feature of the tourism industry is the widening of the gap between peak-season and off-season performance, a trend identified in a recent study by the Caribbean Tourism Research and Development Centre. Barbados was mentioned among those destinations where seasonality worsened between 1980 and 1985.

The Domestic Economy

"The 5 per cent real growth of the Barbados Economy in 1986 resulted from expansion in all sectors of the economy and the reversal of the negative growth which was recorded for most of these in 1985.

"Sugar recorded an 11.1 per cent real growth rate, as compared with a negative figure of 0.2 per cent for 1985. Manufacturing and Construction expanded by 7.9 and 7.1 per cent respectively, reversing the negative rates of 9.5 and 2.8 per cent recorded in 1985. Tourism grew by 3.5 per cent, improving on the negative trend of 1985 when there was a decline of 3 per cent.

"A more detailed look at each sector gives an indication of the extent of the expansion.

Sugar

"In 1986 Sugar Production was 111,149 tonnes — the best since 1980. The increased yield resulted from good rainfall, reduction in cane fires, improved harvesting and factory techniques, and the greater availability and use of fertilisers particularly by small farmers. However, the industry's

foreign exchange earning potential was seriously affected by the low world market prices.

Tourism

"The 3.5 per cent growth in Tourism was stimulated by an improved summer season and continued strong growth in cruise ship arrivals. Winter arrivals grew by 2.3 per cent. There was an increase of 10,635 long-stay arrivals in 1986, the figure having risen from 359,135 in 1985 to 369,770. Overall, there were 18,150 more arrivals from the United States — an increase of 12.3 per cent on the 148,000 recorded for 1985; but the United Kingdom market recorded the largest percentage increase of 22.6 per cent. There were significant declines in visitors from Canada and Trinidad and Tobago.

"Tourist spending in 1986 increased by \$29.2 million over that for 1985 — rising from \$618.1 million to \$647.3 million. There was a 3.0 per cent improvement in employment in the distributive trades and in hotels and restaurants, as the number of persons working in these areas increased from 20,100 to 20,700.

Manufacturing

"The 7.9 per cent rate of growth in manufacturing was surpassed only by the 11.1 per cent growth rate for the sugar sector. Significant increases were recorded in all of the manufacturing sub-sectors, except for textiles and wearing apparel and assembly-type goods. The index of industrial production and GDP indicators in 1986 showed that the largest increases in output occurred in non-metallic mineral products, petroleum products and chemicals. There were indications that the availability of greater amounts of disposable income gave rise to increased demand for food and beverages, as these subsectors, along with tobacco added \$96.4 million to nominal gross domestic production, and represented a 24 per cent increase in value added. Gross output in food processing alone rose by 30 per cent.

"Despite the closure of Intel there was still a 2.1 per cent increase in the volume of output of electronic components in 1986, compared with a 5.5 per cent decline in 1985. This resulted from a strong demand for semi-conductors in the United States. However, low prices contributed to a fall in earnings.

Construction

"The construction sector recorded a 7.1 per cent growth rate. This was the highest growth rate for the sector since 1980. Government's road refurbishing

programme, a decline in building costs, lower mortgage interest rates and a higher level of government activity in residential home building contributed to the growth. Most of the activity in this sector occurred in the second half of the year. The information on housing construction indicates that 1,685 housing units were started, 36 per cent more than were started in 1985. One thousand, nine hundred and fifty units were completed in 1986, 33.6 per cent more than in 1985.

"Another indication of the increase in construction activity, including residential improvements, was the number of solar water heater installations. There were 1,578 such installations in 1986 — an increase of 18.7 per cent over those for 1985.

Mining and Quarrying

"The cut-back in oil exploration, which was necessitated by a fall in oil prices, caused a slowing in the growth rate for the mining and quarrying sector in 1986. However this sector recorded a real GDP growth rate of 5.5 per cent in 1986. With the stabilisation of oil prices at the higher level, there will be an increased volume of crude oil production in 1987.

Non-Sugar Agriculture

"The non-sugar agricultural sector recorded a negative growth rate of 3.9 per cent in real terms. This was the only sector to record a negative real growth rate. A high incidence of disease caused yam yields to fall by about 32 per cent, and there was a 77 per cent decline in the volume of exports of this crop, which had become a major non-sugar export.

"There were significant declines in the exports of sweet potatoes, sweet peppers and eggplant, and the island's onion crop was severely affected by the blast disease, which reduced yields by about 40 per cent. There was a general increase in livestock and dairy production in 1986.

"Beef production increased for the first time in five years, rising by 25.6 per cent to 308,100 kilogrammes. Milk production continued to increase in 1986 recording 10.6 million kilogrammes, an improvement of 13.5 per cent on the 1985 production.

"Pork production increased by 27.3 per cent over that for 1985 to record 1.2 million kilogrammes.

Inflation

"A significant feature of the performance of the economy in 1986 was that inflation declined even while the

economy expanded. The average annual increase in prices was 1.8 per cent, the lowest in 19 years compared to 3.9 per cent for 1985.

"The price index for clothing and footwear declined significantly by 12.4 points. The index of fuel and light prices declined by 8 points, and there was a fall of 6.7 points in the index of prices in the house operations and suppliers group.

"Average transportation prices declined by 2.5 per cent. This contrasted with an 8.2 per cent increase in 1985.

"The index of housing prices declined from 200.2 points in January to 195.2 at the end of the year.

"For the second year in succession, wage and salary increases in the major sector were moderate — the average for 1986 being 4.5 per cent compared to 5.6 per cent in 1985.

Employment

"Unemployment continued to be a source of worry and efforts were made, in the appointment of the Task Force on Unemployment, to draw on the collective wisdom and initiative of the community in planning for the tackling of this major social problem.

"The Task Force has completed its work and the Government will be implementing some of its suggestions during 1987. Implementation of one of these was already started in 1986, I refer to the beautification programme of the National Conservation Commission.

"The Government's new economic strategy which was heralded by the fiscal measures of July helped to bring some improvement in employment. The average annual unemployment rate which stood at 18.7 per cent in 1985 fell to 17.7 per cent in 1986. Unemployment among females fell to 23 per cent — a decline of 1 per cent, while male unemployment fell to 13 per cent — a decline of 1.2 per cent from the figure recorded in 1985.

"The labour force expanded significantly in 1986. There was an addition of 3,800 persons or a 3.2 per cent increment to 116,900 in 1986 as against 113,300 in 1985. This was the largest percentage increase in the labour force which has occurred in the last four years.

"The number of persons employed increased in 1986 from 92,100 in 1985 to 96,200 — an increase of 4,100.

Trade

"In 1986, the deficit on visible trade was \$628.8 million. There was a decline

of 22 per cent in the value of exports. The value of clothing and furniture in the total domestic exports continued to decline. The value of exports of electronic components fell by 27.2 per cent, as a result of the slump in prices and the weak market conditions which faced Barbados' chip manufacturers in 1986.

"There was a fall in the national import bill from \$1,221,581 in 1985 to \$1,181,075 in 1986. This 3.3 per cent decline is significant, in a situation where there was an increased availability of disposable income. It is also expressive of a decline in the import content of goods and services produced within the country.

"As far as the distribution of trade is concerned there was a reversal of the situation which obtained in 1985. The United States replaced CARICOM as Barbados' major trading partner, absorbing 23.7 per cent of Barbados goods.

"There was a fall in the level of Barbadian imports from the two major trading partners, while increases were recorded for the United Kingdom, Canada and Japan, and imports from West Germany doubled.

Balance of Payments

"There was a balance of payments surplus of \$4 million at the end of the year.

"Exports were depressed because of lower sales of manufactured goods and low prices for electronic components.

"Foreign debt amortization and interest payments rose to \$176 million while foreign borrowings from commercial banks amounted to \$105 million.

"At March 31st this year the gross foreign reserves of the Central Bank were \$209.4 million compared with \$256.6 million at the end of March 1986, the equivalent of about 3 months of imports.

"Preparation of a new five-year development plan for 1988 to 1993 has been started and will seek to build on the several initiatives which have been taken, so far, within the context of Government's stated priorities.

"The long term strategy will be based on a continuation of the process of consultation with the private sector and the wider community which has begun to characterise social and economic planning and which has been particularly evident in the case of the Task Force on Unemployment and in recent planning exercises in the Ministries of Agriculture, Tourism and Industry.

"By this means, Government will be

well placed to mobilise much of the latent human resources which exists in our nation, and channel them into the national development process.

Offshore Financial Services

"The Government continues a programme of aggressive marketing of the offshore services sector. In the prevailing circumstances reasonable results have been achieved. At the end of 1986 some 650 companies were registered in this sector. Of these some 150 were active International Business Companies, 220 Foreign Sales Corporations, 46 Exempt Insurance Companies, 18 Management Companies, 13 Shipping Companies and 4 Offshore Banks.

"Direct contribution to revenue from the entire offshore sector amounted to some \$5 million in 1986-87.

"Changes in United States legislation in recent years have permitted the creation in the United States of an entity known as an International Banking Facility which can offer many of the advantages available from a reputable Offshore Bank. Some provinces in Canada are in the process of following the example of the United States. This development has reduced the scope for rapid growth in offshore banking in Barbados.

"However the operations of the banks doing business here continue to grow at a satisfactory rate. The assets of the four banks together in 1986 totalled US\$1.1 billion representing a positive movement of 10 per cent over the previous year's figures.

"In the area of exempt insurance there has been considerable growth in 1986.

"The number of companies on the register moved from 7 at December 31, 1985 to 46 by end of 1986 and now stands at 60.

"The Government considers the development of trade and investment relations with as many countries as possible desirable. It intends therefore to establish whatever instruments are necessary and desirable in pursuit of this objective. Among the countries with which we propose to seek to conclude double Taxation Treaties are West Germany, Japan and Sweden.

"The last named country has given notice of its intention to terminate the existing treaty which was concluded with the U.K. and extended to Barbados and has expressed its interest in concluding a new treaty more in keeping with the realities of our existing economic relationship. Barbados has already made a positive response to Sweden.

Monetary Policy

"The Government had indicated that its new fiscal policy would be accompanied by appropriate monetary policy.

"The overall reserve requirements of the commercial banks were raised to 30 per cent in October while several financial instruments were made available to the public, all of which were well supported.

"The mortgage rate was reduced to 9 per cent while the average lending rate was brought down to 9.5 per cent.

"The Central Bank's discount rate was reduced to 8 per cent and the minimum deposit rate lowered from 4 per cent to 3 per cent.

"The Treasury Bill rate declined from 4.58 per cent in December 1985 to 4.34 per cent by December 1986.

Investment

"The capacity of an economy over a prolonged period of time to sustain increases in income and employment is critically dependent on the maintenance of an adequate level of investment. When the ratio of Gross Fixed Capital Formation to Gross Domestic Product declines for any significant period, the ability of the economy to satisfy the future demands for jobs and higher living standards through the use of the depleted stock of fixed assets will be seriously compromised.

"In this regard, the recent marked reduction in the ratio of Gross Fixed Capital Formation to GDP in Barbados is a cause for concern, and unless the trend can be reversed as a matter of some urgency, growth in the economy will be adversely affected. On average, during the 1970s, the country was investing in fixed assets which would generate in future income an amount roughly equivalent to 25 per cent of the value of its total output. However, since then gross fixed capital formation has decreased in both absolute and relative terms and between 1984 and 1985 averaged only 15 per cent of GDP.

"The July 1986 Budget recognised the seriousness of this problem and sought to address it. In particular, the reduction in the rate of Corporation Tax from 45 per cent to 35 per cent significantly increases the volume of after-tax profits available for investment. Similarly reductions in the rate of Property Tax on some businesses and in operating expenses such as Water Rates improves cash flow and ultimately profitability.

"While reduction in the level of taxation and in the costs of business operations are necessary conditions for

revival of investment activity, other supporting policies are required, especially those relating to the encouragement of exports since the export-led strategy of Government implies that much of the desired increases in investment will be targeted for the export sectors.

"In this context, there already exists a comprehensive range of policies and programmes designed to assist exporters.

"Mr. Speaker, I consider that in addition to these special schemes and incentives, there is need for additional institutional strengthening, financial support and the creation of new financial instruments to mobilise savings, and promote investment and exports. I now propose to outline a number of specific measures which seek to achieve these objectives.

Barbados Investment Council

"Now that Barbados is moving to attract industries with higher value added locally, the focus of promotion must increasingly be on these firms with special requirements, including the need for a high quality work force. Such efforts should be directed at industrial and commercial enterprises that may benefit from our regime of offshore business. Success will require much greater use of personal and institutional contacts such as those built up by the commercial sector with their industrial suppliers or with other commercial enterprises over the years.

"Government, therefore, proposes to establish the Barbados Investment Council to promote the mobilisation of domestic resources for investment. The Council will consist of no more than 12 persons drawn from the public and private sectors.

Securities Exchange

"One of the major aims of Government is to increase the flow of domestic savings going into equity investment. A number of concessions have been introduced in the past to stimulate purchase of new share issues, but the main obstacle to development of the equity market has been identified as the absence of institutional machinery which would facilitate the transfer of shares from sellers to buyers. Because of the costly and time consuming process presently involved in share transfers, potential buyers are discouraged from investing their savings in equity.

"For some time, work has been progressing on the establishment of a Securities Exchange in Barbados. Such an Exchange would provide a legally regulated market for the buying and selling of listed shares and would

permit shares to exchange hands in a speedy and orderly fashion, thus removing many of the obstacles to the growth of the equity market. It is also proposed to trade Government securities on the exchange in order to make it easier for the small investor to participate in the regular issues.

"Another serious impediment to increased trading in shares has been the transactions costs incurred in transferring share ownership. At present, Property Transfer Tax of 5 per cent is payable by nationals on sales of shares valued over \$25 000 and similarly Property Transfer Tax of 8 per cent is paid by non-national vendors and 10 per cent by non-national purchasers on amounts exceeding the same limit. In addition, Stamp Duty which is payable on shares sold inhibits the regular and free transfer of local securities.

"To improve liquidity in listed issues and to encourage publicly held companies to list their shares on the exchange, it is important that these transactions costs which would be completely prohibitive for short-term traders be eliminated as far as possible. Accordingly, it is proposed that transfers in respect of transactions in shares of listed companies made through and in accordance with the rules of the Securities Exchange of Barbados be exempt from the Property Transfer Tax and Stamp Duty. It is anticipated that the Exchange will become operational by mid-year.

"The revenue loss will be \$500 000 based on 1985 returns.

Venture Capital Corporation

"The establishment of the Investment Council and the launching of the Stock Exchange will provide powerful institutional support for investors generally.

"Equally important, however, is the need to ensure availability of financial resources on appropriate terms and in this regard the lack of adequate risk capital is seen in many cases as a major handicap to the development of viable business entities. While medium and long-term loans are available from the commercial banks and the Barbados Development Bank, a recurring problem facing local business is the lack of equity financing, and the consequential unfavourable debt-equity ratio which creates almost insurmountable difficulties when there is a downturn in the market and arrears of debt accumulate.

"A study of the financing needs of the private sector has been undertaken and it is proposed to establish a Venture

Capital Corporation. Such a Corporation by purchasing shares directly would help to improve the high debt-equity ratios evident in many companies in the industrial sector. The Corporation would also equip itself to provide advisory services in finance, management and marketing and in this way would help companies to economise on the cost of support services through cost sharing.

"The corporation would be a private sector company, with Government and the Central Bank as small shareholders. Government views the creation of the Venture Capital Corporation as fulfilling a glaring need in the capital market of Barbados and has mandated the Central Bank to initiate discussions with Banks and other interested partners with a view towards early implementation.

"Equity Funding is essential and the initial capital is expected to be of the order of 24 million dollars. The Central Bank will take 20 per cent of the equity and the Government 5 per cent.

Micro-Business Window

"While this corporation like the other existing financing institutions will serve principally those small and medium-sized businesses which have a capacity for further growth, there is a category of business which at present is not catered for at all. This consists of those micro (often one-man) businesses which will never expand but which have the potential to provide a satisfactory living for the self-employed.

"Such enterprises need access to capital as well and so it is proposed to set up a micro business window in the Barbados Development Bank to cater exclusively to the needs of this group of entrepreneurs. It will initially be capitalised in the amount of \$500,000 with the Bank and Government each contributing \$250,000. This window will become operational in this financial year.

Public Investment Instruments

"Restoring investment to the levels needed to sustain satisfactory economic growth over the medium-term requires raising the level of financial savings in the community and channelling these savings through financial intermediaries into productive activities. To encourage the public to save part of their increased disposable incomes, it is proposed to make attractive financial instruments available for purchase.

"A special issue of National Housing Development Bonds in the amount of \$10 million will be issued by the Bar-

bados National Bank. The proceeds of these bonds will be used to cater to the needs of the lower income groups for mortgage finance and will be disbursed by the Barbados Mortgage Finance Company.

"I also propose to make up to \$5 million available to the Barbados Mortgage Finance Company and a further \$5 million to the National Housing Corporation during this fiscal year.

"These measures are designed to enhance the capacity of the two organisations which cater to lower income groups in the community, to meet the housing needs of that sector of our population.

"The programmes will include home repairs and home improvements, sites and services, starter homes and increased availability of mortgage finance.

"Additionally, a \$10 million issue of National Development Bonds, will be put on the market by the Barbados Development Bank.

"I should mention that more jobs will be created by this activity.

"Also, I propose to introduce two new instruments which will assist individuals and corporations with their tax planning and which will be useful sources of investment.

"Firstly, there is the Tax Reserve Certificate. The purpose of this certificate is to provide an instrument which is attractive and convenient for individuals as well as corporations to set aside a portion of cash against their future income tax liability.

"These certificates can be tendered as payment for tax and will bear interest at the rate in effect at the date of issue. The interest will be paid for each complete month from that date to the date on which the tax is due but not exceeding 24 months and will be tax free.

"Secondly, there will be a Tax Refund Certificate. This Certificate is being introduced to accommodate those persons who are receiving refunds and are desirous of investing them.

"It can be encashed at any time after a period of six (6) months from the date of issue but not exceeding five years and will bear interest at a rate to be determined each fiscal year. The interest will be tax free.

"I wish to stress that all taxpayers are entitled to receive their refunds in the usual manner and this instrument is being made available only for those who wish to invest their money in this way.

"Mr. Speaker, since August last year

I have been holding consultations with the private sector with a view to mobilising private sector resources to assist and to facilitate Government's policy objectives of export-led growth.

"It was recognised that tourism offers the best opportunities in the short-term for expanding export earnings and generating new jobs.

"A group of large private sector companies who are users of foreign exchange but who are also important earners of foreign exchange have proposed that a fund be established by voluntary contributions from the private sector for the purpose of supporting increased marketing of Barbados as a tourist destination.

"The proposal is for participating private sector companies to contribute 3 per cent of pre-tax profits to the Fund which will be a corporate entity managed by a committee of the contributors with Government representation.

"On the basis of firm commitments, it is estimated that the Fund will realise some \$3 to \$4 million per year over the three year period during which the contributors have covenanted to contribute.

"The Government has approved the proposal in principle and has agreed that the contributions to the Fund will qualify for the benefit of the Market Development Allowance under Section 12F of the Income Tax Act.

"The Government considers this is an initiative of greatest significance. Not only does it represent an expression of confidence on the part of the private sector in Government's policies but also represents an encouraging response from some of the biggest companies in Barbados to Government's new fiscal measures.

"The fund will be used for market development of the tourism product and will be aimed specifically at improving the summer trade and by increasing year-round occupancies will make fuller use of the under-utilised capacity presently existing in the Tourism industry.

International Competitiveness

"Mr. Speaker, I wish now to say a few words on the matter of competitiveness of Barbados' export sectors.

"It must by now be abundantly clear to us all that in order for this economy to grow and provide the jobs and increased living standards we all deserve, our foreign exchange earnings capacity must continuously expand.

"While fuller utilisation of existing productive capacity can in the short-run sustain output, eventually in-

creased output requires increased investment, local and foreign, and such investment will only be forthcoming if goods can be produced and services provided in Barbados, at prices which permit those goods and services to be profitably marketed.

"Available evidence indicates that wage rates in Barbados since 1980 have increased faster than prices and the growth of real output per employee, with the result that unit labour costs of production here have grown faster than is the case with our major competitors.

"It is essential that we all recognise that if our exporters are to be able to exploit the market access provided through Barbados' participation in various preferential trading arrangements with the United States, Canada and Europe, it is necessary that our costs of production do not increase at a faster rate than those of our major trading partners.

"In this regard Government in the July 1986 Budget introduced measures, some of which were mentioned earlier, to reduce the operating costs in tourism and manufacturing.

"The Government, as I have repeatedly stated, is committed to maintaining the present parity of the Barbados dollar with the US dollar. A stable exchange rate regime confers significant benefits on a small, open economy, such, for example, as maintaining investor confidence.

"However, it is imperative that such an exchange rate policy be accompanied by fiscal, monetary and wages policies which ensure that Barbados' competitiveness is not eroded.

"Government has put in place appropriate fiscal and monetary policies and it is essential that, in future, increases in wages do not exceed productivity growth.

"In this regard I am heartened by the recent wage settlement in the tourist industry which hopefully will be regarded as setting the example for future settlements.

"Nonetheless, Government considers continuous improvements in the standard of living to be a fundamental objective of economic policy.

Fiscal Review

"Current revenue was originally estimated at \$704.7 M. The concessions in the July 1986 budget were estimated to result in a gross revenue loss of \$87M and a net revenue loss of \$53 M.

"The revised estimate of current revenue was therefore \$651.7 M.

"Provisional data at March 31st indicate that current revenue was \$670.5 M, \$22.4 M or 3.5 per cent more than for Fiscal Year 1985-86.

"Personal Income Tax, compared with the fiscal year 1985-86 fell by \$57.1 M. However Consumption Tax increased by \$20.9 M, Import Duties increased by \$18.8 M, Stamp Duties increased by \$10.9 M. Corporation Tax increased by \$14.2 M, and Property Taxes increased by \$7.8 M.

"It will therefore be seen that the reduction in Personal Income Tax was more than fully compensated for by increases in revenue in these other areas.

"Current expenditure was originally estimated at \$701.7 M. During the year supplementary provisions of \$22.5 M. were approved by parliament making a total of \$724.2 M.

The fiscal programme introduced in the July budget called for a reduction in current expenditure to \$688 M.

"Provisional data at March 31st indicates that current expenditure was \$681 M, \$17.9 M or 2.7 per cent, more than for fiscal year 1985-86.

"The deficit on current account was therefore \$10.5 M. compared with current account deficits of \$21.1 M. for fiscal year 1984-85 and \$15 M. for fiscal year 1985-86 under the high tax regime of the previous administration.

"It should also be noted from the above, that if the fiscal programme of the former administration had remained in place, the current account deficit would have been \$20 M.

"Capital expenditure was originally estimated at \$190.1 M. During the year supplementary provisions in the sum \$48.8 M. were approved by Parliament, making a total of \$238.9 M.

"In the July budget I indicated that capital expenditure would be reduced to \$150 M.

"Provisional data at 31st March, 1987 indicates that capital expenditure was \$163.5 M. inclusive of a sum of \$11.7 M. relating to the Industrial Credit Fund, which is administered by the Central Bank.

"Of this expenditure \$1.04 M. occurred in 1983-84, \$4.26 M. occurred in 1984-85, \$4.96 M. occurred in 1985-86 and only \$1.52 M. occurred in 1986-87. Through an oversight these expenditures were not brought to book until 1986-87.

"The true Capital Expenditure in 1986-87 was therefore \$153.3 M.

"In summary the fiscal targets set by the Government in July 1986 were achieved.

"The overall deficit of the Central Government was \$163.8 or 6.1 per cent of GDP.

"However, when amortisation is excluded from the current expenditure and shown as a financing item net of capital inflows, as is the custom, and the surplus from the National Insurance Fund is included, the Consolidated Public Sector deficit is reduced to 3.2 per cent of GDP. This is to be compared with 3.5 per cent for the fiscal year 1985-86.

"The data presented indicates that under the fiscal regime of the previous administration the deficit would have been \$187.1 or \$23.3 M. higher than what was achieved by us. This is based on the information provided in the approved estimates for 1986-87.

"However, when supplementary provisions by Parliament are taken into account the deficit under that fiscal regime could have been as high as \$258.4 M. unless additional revenue measures were introduced, or drastic cuts in expenditure made or some combination of both.

"It should also be abundantly clear that the measures which were introduced in July did not increase the fiscal deficit.

"On the contrary the deficit was substantially reduced through steps taken by the new Government to reduce Capital Expenditure from \$190.1 M. to \$153.3 M., while the deficit on current account was only \$10.5 M.

"To emphasise this point I wish to compare the fiscal out-turn over the past three years.

"In Fiscal Year 1984-85 the current account deficit was \$21.1 M., Capital Expenditure \$147.6 M. and the overall deficit \$168.7 M. or 7 per cent of GDP.

"In Fiscal Year 1985-86 the current account deficit was \$15.0 M., Capital Expenditure \$148.0 M. and the overall deficit was \$161.0 M. or 6.5 per cent of GDP.

"In fiscal year 1986-87 the current account deficit was \$10.5 M., Capital Expenditure \$153.3 M. and the overall deficit was \$163.8 or 6.1 per cent of GDP.

Public Dept

"Mr Speaker, in recent weeks they have been many statements to the effect that Government has been borrowing excessively on the foreign market to finance current expenditure.

"The data I presented on current revenue and expenditure demonstrates that this is not the case.

"Capital expenditure has been financed in its totality in recent times by local and external borrowings and it was reduced by some \$37.0 M.

"No one has to warn me about the implications of excessive foreign borrowing because of many years I

have been cautioning the last administration against the rapid expansion in the foreign debt and, if my advice had been taken seriously, we would not have been faced with such massive repayments of foreign debt during fiscal years 1988—1990.

"At March 31st the public debt, that is, the Central Government's debt was \$1.26 billion of which the sum of \$662.0 M. was borrowed locally and \$604 M. from external sources. The gross domestic product at market prices was \$2.67 billion and total export earnings from goods and services \$1.6 billion. The Foreign Debt Service was 2.6 per cent of GDP and 4.4 per cent of earnings from the export of goods and services.

"In the future, I will include in the Estimates a schedule showing the total National Debt and which will show the Public Debt, Public Guaranteed Debt, Central Bank Debt, privately held debt and any other relevant information over a period of 20 years.

Objectives of Budgetary Policy

"The 1987 Budgetary proposals therefore are being presented against the background of an economy which has shown encouraging signs of resurgence but which is yet characterised by an unacceptable level of unemployment and a fragile balance of payments situation since 1981.

"This Budget therefore must seek to address both the short-term need to increase the number of jobs available and the longer-term needs to increase productive investment and improve the balance of payments by increasing export earnings and dampening the growth of certain imports.

"These policies are firmly set in the framework established in the July 1986 Budgetary Proposals — reduction in the level of personal and corporate income tax to increase disposable incomes and stimulate economic activity, assistance to the private sector, the main engine of growth, in the form of a reduction in the costs of business operations, incentives, institutional support and financial assistance, and a reduction in the size of the public sector.

"The main objectives of budgetary policies in 1987 may be stated as follows:

(1) Expansion of employment opportunities

(2) Progressive reduction of the deficit of the Consolidated Public Sector to 3 per cent in 1987—88 and 2 per cent in 1988—89 through a judicious combination of expenditure control and non-inflationary revenue measures.

(3) Strengthening the productive base of the economy by expanding capital markets, mobilising domestic savings, encouraging wider share ownership and boosting investment through institutional support and fiscal incentives.

(4) Improvement of the balance of payments.

(5) Stimulation of local manufacturing and agricultural production in certain selected areas, particularly garments and processed food-stuff by taking steps to enlarge the size of the domestic market.

"Mr. Speaker, The revenue measures I shall be proposing relate to these objectives, and are also designed to create employment opportunities, ensure adequate levels of health care in an expanded health delivery system, meet the financing requirements of the public transport system for this fiscal year, and finance the \$26 M. bill arising from the increases in the public servants' salaries.

"They have been carefully designed to achieve specific macro-economic and sectoral goals and to ensure that there is no reversal of the momentum generated by the fiscal measures implemented in July 1986.

Income Tax

"In July 1986, I gave significant relief in the area of income tax and sought to bring basic principles of equity to bear on our income tax structure. I look forward to making further concessions in the future.

"Consistent with the principles I outlined in July last year, there is a need to make certain adjustments.

"The income tax changes have removed a large number of persons from the tax net and they derive no tax benefit from allowing the various levies as a deduction. This situation should apply to all.

"Therefore with effect from income year 1987, the various levies will not be allowed as a deduction for income tax purposes. This change will result in additional revenue of only \$1.5 M.

"The present income tax laws make provision for covenants to be allowed as a deductible expense. In recent years there has been substantial and increasing abuse of this facility and it was largely degenerated into a mechanism for tax avoidance.

"Therefore, with effect from income year 1987, except in the case of covenants with charitable organisations which will continue to be 10 per cent, covenants will be restricted

to 5 per cent of assessable income instead of the present allowance of 15 per cent. This proposal is expected to result in additional revenue of \$500 000.

"I also propose to make an adjustment to the present method of dealing with Dividend Credits. At present, the Dividend Credit is 50 per cent. However, that rate was set at a time when the Corporation Tax Rate was 45 per cent and before the new Income Tax structure was put in place. As a result, there is no longer any justification for such a large Dividend Credit and effective from this income year, the Dividend Credit will be reduced from 50 per cent to 15 per cent. The revenue to be saved from this adjustment is \$700,000.

Corporation Tax

"Last year I reduced the Corporation Tax from 45 per cent to 35 per cent. All indications are that that decision has had a beneficial impact on the various companies. In addition, I appointed a committee to make recommendations on further changes to the corporate tax structure. The committee handed in its report recently and the contents of that report are now being studied by the Ministry of Finance. Therefore, at this point in time, I do not propose to make any major changes in this area.

"However, I consider one minor change to be in order. The present building allowance of 2 per cent for commercial buildings is extremely generous for two reasons.

"In the first place, it is not limited to any period of time but companies will be able to claim the allowances every year for so long as they are in existence.

"Secondly, the rate of tax has been reduced from 45 per cent to 35 per cent and when the recommendations of the Corporation Tax Review Committee have been studied, further changes will be implemented.

"Therefore, effective from this income year, I propose to reduce the Building Allowance from 2 per cent to 1 per cent. The allowance for listed buildings of historical interest will remain unchanged. This change will result in additional revenue of \$750,000.

Employment

"Despite the significant success of the Government in generating new jobs so far, the level of unemployment remains unacceptably high.

"All those in employment have a moral duty to contribute towards the generation of new jobs and towards equipping the young with skills to enable them to take advantage of any new job opportunities.

"I therefore propose to introduce two new measures to enable the Government to make a greater contribution in these two areas by implementing some of the recommendations of the report of the Task Force Committee on employment established by the Minister responsible for employment.

"With effect from May 2nd the Training Levy will be increased by 0.5 per cent of insurable earnings and this will be payable by the employee. At present employers pay 0.5 per cent of insurable earnings and this will remain the same. This is expected to yield \$2.75 M.

"As a temporary measure a new Employment Levy will be introduced. This Employment Levy will be used to finance specific programmes relating to new job opportunities. Effective from May 2nd, employers and employees will each pay 0.5 per cent of insurable earnings. This is expected to yield \$9.2 M.

Health

"Experience has shown that the introduction of National Health Service programmes place ever increasing burdens on the financial resources of countries without commensurate improvement in health care delivery.

"The past administration chose to ignore all the evidence emanating from all parts of the world, and implemented a programme which is now making ever increasing demands on the country's limited resources.

"This year the Glebe Polyclinic becomes operational while steps will have to be taken to ensure that the other aspects of the Health Service already in place do not result in sub-standard levels of medical care in the community.

"I therefore propose to increase with effect from May 2nd the Health Levy by 0.5 per cent payable by employees. This measure is expected to yield \$4.6 M.

Public Transport

"Since the decision taken by the previous administration to nationalise the entire public transport system, the Transport Board benefitted through increases in bus fares from 25 cents to 75 cents, while transfers from the public by way of direct subsidies and levies have amounted to over \$98.0 M.

"Clearly this situation cannot be allowed to persist and drastic steps will have to be taken to correct this problem which constitutes an embarrassment and a blot on the reputation of this country for reasonably sound financial management.

"I will not be increasing bus fares since this will place the burden of what is a national problem solely on the poorer sections of the community who use the public transport system.

"However, the requirements to finance the deficit at the Transport Board this year are in excess of 25 million dollars when one brings to book all the outstanding commitments which were either hidden or brought forward year after year.

"With effect from May 2nd and on a temporary basis, I propose to increase the portion of the Transport Levy payable by employees by 3% of one per cent and give the new Board an opportunity to demonstrate whether it can bring reasonable levels of efficiency to bear on that operation. This will yield \$6.875 million.

"These adjustments in the levies are designed to avoid increases in the non-wage costs of labour which are already high and affecting the competitiveness of Barbados in the economic environment in which we have to function.

"To put these increases in levies in a clear perspective they amount to a mere 2½ cents in the dollar for employees. This is a small price which I am sure all of us will be happy to pay to help find jobs for the unemployed, improve the skills of the young, provide better care for the aged, the chronically ill and the young and tide over the Transport Board for a year until, with better management, the financial situation there can be improved.

Stamp Duty

"Last July I reduced the rate of Stamp Duty on certain import items from 12 per cent to 10 per cent.

"As you know, Mr. Speaker, there has been a call from certain member countries of the Caricom Region for the removal of the Stamp Duty on Caricom goods.

"However, while we are sympathetic to the call, such a course of action, on our part, must await the resolution of the many problems which inhibit Barbados' access to the Caricom Market.

"Nevertheless, with immediate effect as a clear signal of our commitment to Caricom I now propose to reduce Stamp Duty on Caricom imports from 12 per cent to 10 per cent, and to increase the rate of Stamp Duty on extra-regional imports from 12 per cent to 15 per cent. These measures will enhance the competitiveness of Caricom goods, vis-a-vis non-regional goods, in the Barbados market.

"The net effect of these adjustments in the Stamp Duty regime is expected to

yield an additional revenue in the sum of \$11.0 M.

Consumption Tax

"Mr. Speaker, I consider it necessary to take steps to dampen demand for certain extra-regional imports, expand the domestic market for our local manufacturers of garments and other products, including non-sugar agricultural products.

"These are the guiding principles behind the changes which I propose to make in the Consumption Tax structure and as you will appreciate, Sir, an inevitable consequence of these changes is that there will be some increase in revenue.

"With immediate effect the basic rate of Consumption Tax as shown in the existing Consumption Tax Schedule will be 6 per cent instead of 5 per cent.

"Secondly, I have established a new regime for charging Consumption Tax on extra-regional imports which are in direct competition with regionally produced garments.

"With immediate effect, the Consumption Tax on these items will be 30 per cent as shown in Appendix 'A'. Also, in agreement with the Ministry of Trade and Commerce, it has been decided that the minimum C.I.F. value on these items will be increased by 25 per cent.

"With respect to composite sets of garments (e.g. tops and bottoms) which can be sold as individual items, it is proposed that such composite garments be given a minimum C.I.F. value based on the sum of the individual items so as to discourage the sale of these sets as individual items. Also, import licences will be required for such items.

"Mr. Speaker, the Ministries of Agriculture and Trade and Commerce have identified for us a number of items which are either in competition with our local non-sugar agricultural products or which are of a luxury nature.

"Some of these items are not subject to Consumption Tax at present and I have decided to add them to the Schedule with immediate effect but of even greater importance is the fact that I have decided to introduce a special rate for those items from extra-regional sources.

"Details of these items are shown in Appendix 'A' but they include such items as caviar, smoked fish, crustaceans and molluscs, frog legs, grapes, apples, soups and broths, dates, cashew nuts, string beans, pigeon peas, fresh carrots and tomatoes to mention only a few.

"Also, it is considered appropriate at this time to increase the tax on whisky, brandy, gin, vodka from \$10 per litre to \$12 per litre. The tax on cigarettes will be increased from 35 cents per 5 to 40 cents per 5 cigarettes.

"While on the question of Consumption Tax, there are certain adjustments which I propose to make in respect of motor cars. For sometime, there have been complaints from garages about difficulties which they experience as a result of the two-tier system of Consumption Tax.

"I have examined the problem carefully but while I am of the view that it is desirable to have a more equitable tariff structure, any major change at this stage may have undesirable social consequences because of the wide fluctuations in exchange rates which we are presently experiencing.

"However, the Hire Purchase Regulations as they affect motor cars and vans, are being studied and will be changed if it is found to be desirable.

"Finally, on this subject, I wish to address the question of the rebate on motor cars. It is my understanding that the rebate was granted at a time when the garages were facing severe competition from private importers.

"Prevailing evidence suggests that this competition no longer exists. Therefore, with immediate effect, I propose to reduce the rebate from 20 per cent to 15 per cent.

"Mr Speaker, the changes in Consumption Tax which I have outlined above as well as those set out in the Appendix 'A' take immediate effect and are expected to yield additional revenue of \$14.0 M.

Drivers Licences and Related Charges
"Government continues to provide better roads for motorists and other members of the public, improved parking facilities, as well as various improvements to make travelling on the road safer. Therefore, I feel that some small contribution should be made by users to help finance the cost of these improvements. As a result, with immediate effect, I propose the following changes:-

<u>Drivers Licences etc.</u>	<u>Present</u>	<u>Proposed</u>
(a) Driver's licence for 1 year	\$30.00	\$ 40.00
(b) for 3 years	\$75.00	\$100.00
(c) Drivers Test	\$30.00	\$ 40.00
(d) Drivers Permits	\$20.00	\$ 30.00
(e) Renewal of Permits	\$15.00	\$ 25.00
<u>Parking Fees</u>	<u>Present</u>	<u>Proposed</u>
(a) Daily (i) - 1 hour or part there- of up to 5 hours	50c	75c
(ii) - Over 5 hours	\$ 3.00	\$ 4.50
(b) Monthly	\$100.00	\$150.00

Private Motor Cars - Annual Registration Fee

<u>Exceeding</u>	<u>Not exceeding</u>	<u>Present</u>	<u>Proposed</u>
	1150 Kgs	\$200.00	\$240.00
1150 Kgs	1350 Kgs	\$250.00	\$300.00
1350 Kgs	1550 Kgs	\$450.00	\$540.00
1550 Kgs		\$800.00	\$960.00

<u>Inspection of Motor Vehicles</u>	<u>Present</u>		<u>Proposed</u>	
	Exam.:	Cert.	Exam.:	Cert.
Heavy Motor Cycles	\$ 5.00	\$ 2.00	\$ 7.50	\$ 3.00
Light Motor Cycles	\$ 5.00	\$ 2.00	\$ 7.50	\$ 3.00
Motor Bicycles	\$ 5.00	\$ 2.00	\$ 7.50	\$ 3.00

Mr. Speaker the question of insurances licences for motor cars is now being considered by cabinet.

Private Cars	\$25.00	\$10.00	\$37.50	\$15.00
Public Service Vehicles	\$25.00	\$10.00	\$37.50	\$15.00
Goods Vehicles, Tractors, Trailers)	\$25.00	\$10.00	\$37.50	\$15.00

"The above changes which take immediate effect should yield additional revenue of 1.5 M.

Banking Licences

"Legislation is now before Parliament to change the formula which was used for determining the tax on the assets of commercial banks. This change of formula will lead to an improvement in the finances of the banks and I consider it reasonable to increase the licence fees. Therefore with effect from January 1908, the licence fees will be as follows.

"(a) banking licence \$100,000 instead of \$50,000

"(b) in respect of each branch, a fee of \$5,000 instead of \$2,500.

"These changes are expected to yield additional revenue of \$442,500.

Franchise Licences

"The present Franchise Licence fees have been in effect for the past eight years and I consider that an increase is in order. Therefore, with immediate effect, all franchise licences will be increased by 100 per cent, as follows:

	Present	Proposed
Original Licence	\$5,000	\$10,000
Duplicate Licence	200	\$ 400
Renewal of Licence	\$1,000	\$ 2,000

These changes are expected to yield \$60,000.

Licence Fees for Certain Salesmen

"As is the case in other Caricom countries, non-national salesmen promoting the sale of extra-regional goods in Barbados with effect from today will be required to pay an annual licence fee of \$750.00.

Gaming and Betting

"At the moment, the existing regime

which permits gaming and betting is being studied. However, there is no doubt in my mind that the existence of large scale gambling creates a number of social problems for any society. In addition, substantial sums of money are involved in this activity and the revenue which accrues to Government is minimal. I propose to make certain changes to the fees involved with immediate effect as follows:

	Present	Proposed
(i) Pool Betting		
(a) For the grant or renewal of a certificate or registration	\$50.00	\$150.00
(ii) Racing Service Business		
(a) A whole-year certificate	\$50,000	\$ 60,000
(b) A half-year certificate	\$30,000	\$ 35,000
(iii) Gaming machine Licence (other than Amusement Machine Licences)		
(a) A whole-year licence	\$ 3,500	\$ 8,000
(b) A half-year	\$ 2,000	\$ 5,000
(iv) Amusement Machine Licences		
For such machine (excluding a pool table) constructed or adapted for purposes only of amusement a yearly fee of	\$750.00	\$ 1,200.00

(v) Amusement Arcade
Licences for the
issue or renewal of

(a)	A whole-year licence	\$60,000	\$200,000
(b)	A half-year licence	\$35,000	\$105,000

These changes are expected to yield additional revenue of \$2.9 M.

Travel Tax

"Barbados is a tourism oriented economy and it is essential that facilities at the airport be upgraded on a continuous basis. At this stage it is undesirable to impose any additional charges which may have a negative impact on the Tourist Industry. With the increase in disposable incomes, Barbadians have been travelling in increasing numbers to various destinations, utilising a significant portion of the country's foreign exchange earnings on consumer items.

"While I have no desire to prevent our citizens from travelling abroad as they wish, I feel that it is only reasonable that some of the money should be retained at home to help with our improvements at the airport.

"Therefore with immediate effect, I propose to increase the travel tax from 10 per cent to 15 per cent up to a maximum of \$300.

"It is expected that this increase will yield additional revenue of \$2.0 M.

Other Stamp Duty

"The public is reminded that under the existing legislation stamps should be placed on all receipts for the sale of goods and services in excess of \$10.00. This reminder has become necessary because there is evidence to suggest that this requirement is not being observed in many cases.

"Mr. Speaker, the Estimates of Revenue and Expenditure for the Fiscal Year 1987-88, provide for revenue of \$698.1 M. and current expenditure of \$711.6 M., leaving a financing gap of \$13.6 M.

"In addition, the increased wages and salaries for Public Servants during fiscal years 1986-87 and 1987-88 amount to approximately \$26.0 M.

"The revenue loss and commitments occasioned by the proposals which I announced this evening total \$11,950,000 as follows:

(1) Securities Exchange	\$500,000
(2) Venture Capital Company	1,200,000
(3) Barbados Development Bank	250,000
(4) Barbados Mortgage Finance Company	5,000,000
(5) National Housing Corporation	5,000,000
	<hr/>
	\$11,950,000

"The above information shows that the gap which has to be covered by additional revenue is 51.6M.

"The revenue raising proposals which I have introduced are expected to yield additional revenue this fiscal year of \$51.9 M. as follows:-

(1) Adjustment in respect of certain deductible expenses	\$2,700,000
(2) Adjustment to Building Allowance	750,000
(3) Training Levy	2,750,000
(4) Employment Levy	9,200,000
(5) Health Levy	4,800,000
(6) Stamp Duty	11,000,000
(7) Consumption Tax	14,000,000
(8) Drivers Licences etc.	1,500,000
(9) Banking Licences	422,000
(10) Franchise Licences	60,000
(11) Gaming and Betting Fees	2,900,000
(12) Travel Tax	2,000,000
	<hr/>
	\$51,902,000

"As indicated earlier, the additional revenue from the Transport Levy will go directly to the Transport Levy Fund and that is why I have not included it above.

"Thus, Mr. Speaker, it is clear that the additional revenue which is being raised will be used to meet the increased salaries for Public Servants, create additional job opportunities for the unemployed, provide a stimulus for

housing development, with particular emphasis being placed on the needs of the lower income groups, and assist businesses at all levels. The new taxes relate exclusively to new expenditures.

"The manner in which both the household and business sectors of the economy have responded to the fiscal measures introduced in July 1986 bears testimony to the intelligence and sense of social responsibility of workers and employers alike.

"It is to this sense of social responsibility that I appeal, as I exhort all Barbadians to work for the attainment of a substantial improvement in productivity and efficiency in all areas of economic endeavour.

"It is also to this sense of social responsibility that I appeal, as I urge all income earners to save and invest wisely.

"In this regard, I especially urge support for all bond issues.

"Such support would constitute a further vote of confidence in the fiscal

policy of Government, and in our national capability to progress as a people.

"As always, confidence is a key to success, and mutual confidence is a formula for happiness...

"This budget is another expression of Government's confidence in the resilience of the Barbadian economy.

"The fiscal out-turn has strengthened me in my conviction that with expenditure restraints fiscal deficits are self-eliminating while associated tax reductions induce a growth response which leads to revenue recovery. I remain firm in this conviction and I have presented today a low tax, investment and employment oriented budget with significant benefits for all in our community.

"Let us all now join together as one nation, as we take the next step forward, our confidence strengthened by the pleasant experiences of the past ten (10) months."

Text of Opposition Reply

Bridgetown BARBADOS ADVOCATE in English 10 Apr 87 pp A-D

[Text]

"Shadow Minister of Finance Owen Arthur was highly critical of the Government's 1987-88 Budget and budgetary proposals presented to Parliament last Tuesday by Minister Dr. Richie Haynes.

"Mr. Arthur took issue with the new indirect taxes, including consumption taxes, the impact they will have on workers, and the economic outlook for Barbados in the current financial year.

"Following is the text of Mr. Arthur's reply to the budget:

"According to an old Barbados proverb, you can buy land but you cannot hide and work it.

"This piece of folk wisdom rather than any economic or financial argument which I can advance, best captures the spirit of the economic and political events which have unfolded in this country over the past year and this has now, Sir, been brought to a head by this large package of taxation which is now to be visited upon the people of this country.

"For if, Mr. Speaker, there is one thing, and only thing that this year's Budget has established, is the complete contrast between the promises of the

Government and its performance; the complete contrast, Sir, between what Barbadians were led to believe could have been accomplished in a short time and what has been achieved, and what, Sir, is now to be visited upon them.

The Budget, Sir, also sounds a note of warning to the people of this country. It says, Mr. Speaker, that economic and financial policies conceived for political effect, as political gimmicks, have no permanent place or role to play in this country's economic affairs, and that when, Mr. Speaker, it may be possible, Sir, to buy an election as you may buy land, that the management and the development of a country's economic affairs is an entirely different matter which cannot be based on tricks, which cannot be based, Sir, on gimmicks, which cannot be based on sleight of hand but must be tensely rooted, Mr. Speaker, in solid and constructive economic policies.

Have foisted

What is abundantly clear above all is that the people of Barbados have foisted upon themselves a Government which has taken hold of the land but which does not have the first clue as to how to make it work to the people's

advantage. And I must say this: separate and apart from the economic burdens which the new tax policies will put on this country, particularly the working class and the middle class, the spirit of this Budget will create a crisis of confidence in the Government and will undermine the stability for which Barbados has become renowned.

"A budget, Sir, is as much a political as it is an economic statement. The new economic policies contained in this year's Budget, Sir, send a disturbing signal to the people of this country. It tells them that they have been conned, that they have been made, Mr. Speaker, the victims of the whimsical policies of an administration concerned more with political games than with economic stability and development." They will seek, Mr. Speaker, their own devices to defend themselves from the vagaries of the so-called democratic process.

"Many people in this country, Sir, would have made commitments, having taken the Government at its word, that it would permanently increase their disposable income. They now unfortunately, Sir, find themselves exposed and left in the lurch and when the Minister of Finance invites them now to share in the confidence, as he calls it, engendered by the pleasant experience of the past ten months, I am sure they ask themselves the question which the citizens of another country asked another Richard who found it impossible to play it straight, can we truly buy a used car from this man?

As a statement of economic policy, Mr. Speaker, this budget has been dressed up in a lot of tinsel designed to disguise its true purpose. It is supposed to stimulate savings at a time when there is no shortage of savings and to expand employment opportunity by making import substitution impossible. I am putting, Mr. Speaker, the most charitable interpretation on the tone of the message.

I will establish in the course of my presentation that the structure of the consumption taxes designed to stimulate local production are such that they do not in most cases make a distinction between the rate of tax on local as against imported goods and that to this extent the measures cannot bring about import substitutions and will have no impact on employment generation as intended.

But I shall also, Mr. Speaker, have to read out the consumption taxes chapter and verse because there is a view being held that the burden of consumption taxes imposed by the minister has fallen on things like frogs' legs and

caviar, but the range of taxes contained in the appendix to this year's budget must be read out chapter and verse so that the people of this country can have a true understanding of the real burden which this Minister of Finance intends to visit upon them.

Purpose of taxes

I shall also establish, Mr. Speaker, Sir, that the whole purpose of these new taxes is mainly to raise funds to extricate Government from the deep financial hole in which it has lodged itself, and I will also further establish, Sir, that the real purpose was to raise enough taxes to cover the cost of wage increases.

Even that limited objective will not be met because of the incompetence of the Ministry of the Public Service in computing the real cause of the wage increases and the naivety of the Minister of Finance in accepting its estimates. I will establish, Sir, beyond the shadow of a doubt that the real burden of these new fiscal rearrangements will be borne less by those who have received the most from the July budget of last year, but that they will be carried Mr. Speaker, Sir, by the low income earners of Barbados and that they will also be carried, Sir, by persons who did not benefit from the measures of July 15, 1985.

These taxes, Sir, will be massively inflationary and definitely erode the improvement in the standard of living which the minister himself now confesses that the Barbadian people have enjoyed since 1980.

The House, Mr. Speaker, will also have to be told that if these measures are seen in conjunction with the Task Force report, they will succeed in laying to rest what we all knew was merely a stillborn baby. That Task Force report, Sir, recommended that the tax measures could have no effect on employment within the first 18 months, and that they would have to be kept intact to allow the increase in disposable income caused by the tax cut to work beyond that period by introducing the largest increases in taxes in this country's history.

Recommendations

The minister has now ensured that the Task Force recommendations will not only have no effect in the short term, Sir, but that they will have no possible effect in that period beyond the 18 months of which that group of experts spoke.

Again Mr. Speaker, if we were to analyse the tax measures in conjunction with the proposed package of

expenditures as contained in the estimates made in this House earlier this year we would not only have rising unemployment, falling disposable income and rising prices, but we would also have a massive cut in the quality of services, Mr. Speaker, on which the standard of living of our people depends, and that in the final analysis the handicapped, the aged, the fatherless and the dispossessed in this society will have also to pay part of the price of the financial mischief of the Democratic Labour Party.

This, Sir, is the full picture that the Minister of Finance should have put before the country. Barbados, Sir, stands on the brink, but what we have seen and what we have been presented with is mainly the tip of the iceberg.

There are other measures, Mr. Speaker, already set in train, which will affect persons' disposable income that will also cause distress to the population and these will also be revealed this afternoon.

The Minister of Finance, Sir, was careful not to say anything in his presentation about energy crisis and energy policy, but the people, they wish to know what they will have to expect, given the recent increase in crude oil prices to nearly \$18 as compared to the \$8.15 where it was when last energy prices were set by this administration.

They are also, Sir, now borrowing more to do less and this House will have to press the minister to give us his frank assessment of what he proposes to do with the vast sums of money that he has raised in this country's name.

I must also add, Sir, that the Government has, in recent times, been making a number of pronouncements regarding the possible disposal of state enterprises and there is a general air of uncertainty surrounding the security of employment of persons employed at those establishments, and we have a need, Sir, to have the air cleared regarding Government's real intention in respect of those enterprises.

Not one word

We have found it strange, Sir, that in the course of a two-hour presentation on the state of the economy and on Government economic and financial policy, the minister had not one word to say to remove that air of uncertainty regarding the security of employment of persons employed at Government-based enterprises.

If I may go forward, Sir, the real problems which face the sugar industry, the real problems facing non-sugar agriculture, the problems facing the small hoteliers and our export

manufacturers have not at all been addressed in this year's Budget, and these are issues which this Opposition wishes to have put on the agenda.

It is against this background, Sir, that I would proceed to deal with the substantive issues raised by this Budget, focusing Sir, on the state of the economy, its immediate prospects and the meaning and the likely effect of the new tax proposals which have just been introduced to the House.

I deal first Sir, with the economic review. As I said in the estimates debate, Mr. Speaker, Sir, if I have to err in my interpretation of economic development I prefer to err by following the judgement of the Central Bank rather than following the judgement of the Minister of Finance.

The annual report of the Central Bank is not to hand, for reasons, Sir, which we don't want to go into, but we do have the economic reviews for September and December of 1986 written, Sir, by the professional staff of the Central Bank, which, if anything, should caution the Minister of Finance against continuous "largeny".

What the minister has done, Sir, is that he has sighted the outturn for the whole year and has claimed full credit for the whole year's performance without giving credit where credit is due, and I wish this evening, Sir, to set the record straight.

Estimates

The Barbados economy, Sir, did in fact, by the Central Bank estimates, grow by five per cent in 1986. But the Central Bank economic review of September 1986 said this, "The Barbados economy maintained its first quarter momentum into the second quarter with real output for the first half of the year rising by 4.5 per cent above the level for the same period in 1985."

Let me repeat, Sir, that the economy grew by five per cent for the whole year, but that in the first half of the year, Sir, when this country was being managed by the Barbados Labour Party, the rate of growth was four per cent higher than that for the preceding year in 1985 — 4.5 per cent and the minister, Sir, wants to claim credit for the growth realised in 1985.

The Central Bank report also reports, Mr. Speaker, that all major economic ventures contributed to the higher economic activity during the first six months of 1986.

Sugar produced in the first half of the year increased by 11 per cent and the Democratic Labour Party wants to claim credit for that performance.

The review also indicates, Mr. Speaker, that tourism continued to expand and that home building and the public road improvement programme spurred activity in the construction section, helping to reduce unemployment to its lowest level in two years.

Manufacturing

The manufacturing sector, Sir, grew by 14 per cent in the first half of 1986, house construction expanded as mortgage rates continued to fall and there was an increase in mortgage lending of more than twice the amount in 1985 reflecting a spurt, Sir, in building activity.

But most significantly, Mr. Speaker, the economic review of the Central Bank for September 1986 says this, that nearly 8 000 more people were employed during 1986 than at June 1985. I want to repeat it, Sir, that nearly 8 000 more people were employed at June 1986 than was the case at June 1985, and when the former minister of finance, Sir, introduced an employment generating budget in 1985 the Central Bank is now telling us that the results of his efforts in that regard are there for all to see.

The Central Bank report also said, Sir, that the twelve-month average rate of inflation as at June 1986 was 2½ per cent and that on a point-to-point basis, Sir, the rate of inflation realised for the first half of the financial year last year, was 1.6 per cent.

I have said all that, Mr. Speaker, to say this, that we left a strong and growing economy with experience in all the major sectors. We left office, Sir, with a rate of unemployment at 15.6 per cent; lower rates of inflation, a continuation of the pattern since 1983, confirming not only our economic policies leading up to elections, Sir, but the effectiveness of the strategy pursued by the Barbados Labour Party to adopt such policies, Mr. Speaker, Sir, that would enable this country to ride out the effects of the earlier recession and so maintain the productive capacity of our economy intact so as to allow this country to take the fullest possible advantage of any improvement in economic conditions.

Foreign reserves

The reserves of this country, Sir, have been built up in each year since 1982 and I must remind the house Mr. Speaker, that in September, 1981 the net foreign reserves of Barbados was \$82 million and we left office with international reserves of \$330 million.

Contrasting Mr. Speaker, contrasting Sir, with the experience of every Caribbean country which faces the same and exact conditions that we face in the wider world and that we did all this Sir, while carrying out our projects, while paying our bills and while putting in place ingenious mechanisms to care for our old, our young and the dispossessed of this society.

Mr. Speaker, if there were any doubts about the general improvement in the standard of living of the Barbadian people, all these doubts, Sir, must now be removed by the confession of the Minister of Finance himself.

On Page 29 of this Budgetary presentation when he said that available evidence indicates that wage rates in Barbados since 1980 have risen faster than prices and they were both a real output per employee and, I must repeat it Sir, because they had been a tremendous amount of controversy aroused by mischievous people in this country on this issue, that the Minister of Finance is now telling us that all available evidence now indicates that wage rates in Barbados since 1980 have risen faster than prices and the growth of real output per employee.

Find it strange

The House, Mr. Speaker, will find it strange, the House will find it strange that the Minister of Finance in outlining his budgetary proposals has not presented us with an outlook for the year to come such as would have been contained in the Central Bank annual report which is now being revised. But the signs Mr. Speaker are there for all to behold.

And persons of an independent mind are now telling us Mr. Speaker that we are in for trying times, that things are tight and that things will get even tighter.

The manufacturing sector Mr. Speaker, has since June of 1986 had to experience many body blows. Intel has gone and there is no hope for recovery because this Government continues to pursue a policy in relation to export manufacturing that is based Mr. Speaker, more on political consideration than on economic reality and I will properly have to deal with that later in my presentation.

Sugar output for 1987 Mr. Speaker, is declining and the Central Bank report will show that Tourism, on which so much is now made to depend had a winter season which did not live up to expectations. The only bright spark, the only bright spark was the growth in

cruise ship arrivals and we know to whom that achievement can be attributed — Mr. Leroy Sisnett.

The strategy Mr. Speaker, the strategy Mr. Speaker which is now being pursued by the Minister of Tourism is a strategy which seeks to give rise to the greatest growth at the lowest end of the market, he wants to play a numbers game.

Strategy

Large number of tourists sir, at the lowest end of the market, but this strategy will not give rise to any substantial receipts and you can be sure that if the small hoteliers, to whom this strategy is being presented as a solution, are forced to cut rates even more, that they can end very well Mr. Speaker, with a situation where the strategy, where the strategy, Mr. Speaker, being pursued by the Minister of Tourism, will put the small hoteliers of this country in even greater grief.

May I remind him Mr. Speaker, of disturbing developments in the distributing sector which ought to have benefited greatest from the tax proposals of the Democratic Labour Party; that layoff have occurred and layoffs are pending in major establishments, Sir, like T. Geddes Grant, Plantations Ltd., Harrisons, Sir, and we know what has already happened to DaCostas.

There is therefore Mr. Speaker, if one were to take an objective assessment of the immediate economic outlook which faces this country, there is absolutely no hope, no hope for major employment generation, our export sectors are weak and weakening and prices Mr. Speaker are bound to surge again as a result of the fiscal proposals which the Minister has brought to the House.

Recessionary

And what about our foreign reserves position? I have already indicated Mr. Speaker that despite the recessionary situations we had to face, the Barbados Labour Party managed to increase this country's foreign reserves from \$88 million in September 1981 to \$313 million in May 1986, of which Sir, the reserves of the monetary authority and the Central Bank in net terms stood at \$257.9 million.

Those foreign reserves fell to \$229.9 million by September of 1986, of which the reserves of the monetary authority and the Government stood at over \$199m. and the Minister of Finance knows why. The Minister of Finance, Sir caused those reserves to fall by pursuing exactly the same policy of which he had always condemned the

Barbados Labour Party, and the first thing that he did when he went to office was to involve himself in the printing of money.

The reserves Mr. Speaker, the Minister of Finance, Mr. Speaker, has obviously, obviously does not understand what he did. In 1985 we borrowed funds and we put the funds borrowed in the foreign reserves, the reserves in '85 Mr. Speaker, increased by \$85 million. But we also were determined Mr. Speaker to ensure that we would do nothing to cause a drain on those reserves, because we understood that a time might have to come in the future when we'll have to call upon them, so what did we do; we put the foreign exchange, Mr. Speaker in reserves and invested them and we did not ask the Central Bank for the domestic currency equivalent of it.

Special account

We put that money, \$50 million of which Mr. Speaker in a special account at the Central Bank and despite going through an election, Sir, we did not touch a penny of it. What did the Minister do? He came to office, gave away the taxes, and in order Sir, to finance his way out of the hole in which he put himself, he asked the Central Bank for the domestic currency equivalent of the money that we had put there and kept there through an election to keep this country's reserves sound.

You don't understand what is meant by the net domestic asset of the Central Bank. The \$50 million which we put in the Central Bank in a suspense account Sir, is a liability of the Central Bank, and you get the net domestic assets by reducing your liabilities from the assets that the Central Bank has for the Government, and all that you did was increase the net domestic assets of the Central Bank faster than the rate of growth which Mr. McClean's is theory too, faster than the growth of the monetary liability of the country and by even Mr. McClean's predictions once you do that you are going to have a corresponding effect in terms of a reduction of the country's reserves.

Compensate

And I stand on the point Sir, I stand on the point that without knowing what he was doing, the first thing that he did to compensate for the short fall in revenue, was that he changed the net domestic assets position of the Central Bank, bringing about a corresponding change in the country's reserves, and I stand on the point Sir.

He doesn't know what he is doing, but the reserves tell, Mr. Speaker, by the Minister's following exactly the same policy of which he had always accused the Barbados Labour Party. And what did he attempt to do? He borrowed money and attempted in December to give an article impression of the country's true external position by bringing the borrowed loans to books for a time.

In December, Sir, some of the loans that were borrowed were put on the books of the Central Bank to make the Minister look good, he had to make an end-of-year statement.

From December Sir, whereas by September the reserves had fallen to \$22m, by December they had increased to \$279m., but the Minister, Mr. Speaker, should tell the country what has happened since then.

It stood at \$279m. In January and the reserves of the monetary authorities fell in January — sorry, they stood at \$279m. in December and the reserves of the monetary authority Sir, fell to \$266.5m. in January, and they fell again in February to \$248.9m. at a time when the economy is operating at its foreign exchange earning peak.

Again, Mr. Speaker, at its foreign earnings peak because that is the time when you are getting in the tourist dollars, and you know you have a balance of payment problem, if your reserves are falling at a time when the country is at the peak of its foreign exchange earning capability.

Camouflage

And he had sought, Mr. Speaker, to camouflage the true balance of payments position of this country by again trying to bring to books at the end of March, some of the loans that he had borrowed, so that the economic background, the economic background, Mr. Speaker, against which this budget is prepared, is one in which the country is faced with the prospects of falling economic activity in most of its main sectors, rising unemployment and a considerable deterioration in our balance of payments and our external reserves position, and I challenge the Minister of Finance to contradict that, and I also challenge the Minister of Finance to contradict that by letting us also have an access to the first draft of the annual report prepared by the professional staff of the Central Bank of this country.

I want, Mr. Speaker Sir, to now turn to the financial statement of the Minister. If I wish, Mr. Speaker, to be nasty and uncharitable toward the Minister of Finance I would simply

agree. I ain't making believe Sir. If I wish to be uncharitable toward him, I would simply agree to accept his own version of the financial out-turn for last year.

For in trying to create the impression that the revenue outturn for last year was not as bad as we said it would be, he made out a case which attempted to show that, contrary to our predictions, his tax proposals of 1986 gave rise to a net increase of revenue for that year.

He is therefore saying, Mr. Speaker, that having given away nothing last year he will now have to take away \$51.9m. this year, but I don't want to be uncharitable toward him, so I will not accept that.

If I may go further Sir, I must ask the question. How is it, because this is the question that will nag the people of Barbados, how is it that the Minister of Finance by his own account tried to give away \$67m. last year when he said the Treasury was broke, but finds it necessary this year to raise \$51.9m., the largest ever tax increase in the history of this country, when by his own account the Treasury is in better shape than it has ever been and is full to overflowing?

I want, Mr. Speaker, to repeat the point, how is it, how is it, that the Minister by his own account tried to give away \$67m. last year from an empty Treasury, but now has to raise \$51.9m, not including the Levy, when the Treasury is full to overflowing? I will therefore not Sir, accept the Minister's own accounts of his financial position, since obviously they will embarrass him. My purpose Sir, is to try to set out as clearly as possible the true financial position that faces the Government so that we may better understand why these new taxes now have to be imposed.

Observations

Last year, Mr. Speaker, last July in responding to the Minister of Finance, I made a number of observations. The first is that the full cost of the July tax measures, if allowed to have full effect for a full financial year, will cost the Treasury over \$100m. and that, and these were the words Sir, and that although they appeared to be attractive, tax measures of that order of magnitude would within 18 months undermine Government's financial position and put the balance of payments of this country in jeopardy.

I also said Sir, that we had to see the tax measures in effect for a full 18 months because of the manner, Mr. Speaker, in which they had been in-

troduced. As you will recall, Sir, the tax measures were announced in full, but most were designed to have effect only for part of the year. In some cases for nine months, in some cases for four months, in some cases beginning January of 1987 and in the case Sir of the reduction of land tax to home owners, indeed not until December of 1987.

I therefore predicted Sir, that the day of reckoning would come in April of 1987, and that if the Minister of Finance tried to take the package into a full financial year he could only be prepared to do so, Mr. Speaker, by indulging in massive foreign borrowing and by some form of new taxation.

Those were my words, Mr. Speaker, which are part of the official records of this honourable assembly. For that let me claim the point Sir, that we need to see the tax measures in operation for at least a full financial year and, given the manner in which they had been spaced out, we need also to see them in effect for a full 18 months so that we can decide how large a cut in tax we would give rise to.

Need to liken

In the Estimates Debates, I felt the need to liken the Minister to an Indian spinner called Chandrasekhar, a back of the hand spinner Sir, who sought to deceive you with the flight and spin, and whom you had to watch very carefully, Mr. Speaker, through the air and off the pitch.

I did a disservice, though to Mr. Chandrasekhar, because he could have at least maintained his place in the Indian Test team. I should have likened you to Insham Ali, wrist spinner none-the-less, mystery bowler none-the-less, but he could not maintain his place in his Test team.

The truth is, Mr. Speaker, as the Minister knows, that our predictions have proven to be correct and the Minister is forced to make adjustments, Mr. Speaker, because he sees the writing on the wall despite everything that he has said in this Budget this year.

He should have seen it before, however, Mr. Speaker, if he had not allowed himself to be misled by the Lickmout Lou of the local economic profession, a political carpetbagger, Sir, who flits from party to party and whose grouse against the Barbados Labour Party, as set out in a letter to the Press, was that Bree St. John and Owen Arthur would not allow him to run the country.

But you should have seen it, if you have read carefully his comments, the

Lickmout Lou of the local economic profession. If the minister was careful, he would have seen from as early as April 9, 1986, that he was being given bad advice, based on a complete misrepresentation of what I said when I spoke in the April debate of 1986. There is a certain economist, Mr. Speaker, who wrote a large and long column saying that the basis of my misinterpretation and the error in computation of the cost of the tax proposal was that I had made an assumption that the tax rate on taxable income of less than \$15 000 would be zero.

Assumption

I made, Mr. Speaker, no such assumption, and indeed I drew reference in April of 1986 to the case of a man earning \$48,000 a year who would have a taxable income of less than \$15,000 but yet would have to pay taxes at the 50 (per cent) rate applicable. If the Minister was serious in dealing with the likely position that would face him, he would have realised there and then that the advice of this economist was based on a false assumption and that, like in most things, the advice he was giving this minister was short, was simple and it was wrong.

But we are left not to deal with that economist here Sir, we must deal with the minister's own finger spinning, and he must explain, Mr. Speaker, why he now understands that the writing is on the wall and he has to introduce taxes of the magnitude that he is introducing.

He starts by claiming, Mr. Speaker, that income tax for the last financial year fell by \$57.1 million as compared with receipts for the fiscal year 1985-86. This is no case at all. In projecting, Mr. Speaker, income taxes for the financial year 1986-87, he set the figure at \$159 million to take account of the expected growth in the Barbados economy which we knew was going to occur in 1986.

Projections

Income tax receipts therefore, Sir, for the fiscal year 1986 have to be compared with the projections for 1986-87 and not against the receipts for 1985-86. And we also have to recognise, Mr. Speaker, that for the first three months of the financial year of 1986-87 the country was operating under the Barbados Labour Party taxation system, so that we cannot just take the outturn for the last nine months if we are to come to terms with what has been the true cost in income tax from the Democratic Labour Party tax proposal.

And what does this analysis tell us Sir? That in the last financial year income tax yielded \$80 million in revenue, off by \$79 million against the amount that we had projected. The question is, were our projections reasonable? Of the \$80 million raised, Mr. Speaker, \$41 million were raised in the first three months, when the country was operating under the Barbados Labour Party taxation system.

So that the country was well on the course, multiply 41 by four, was well on the way to realising the projection of \$159 million in income tax for the year. But he also tells us, Sir, that if \$41 million were paid in the first three months of the financial year, then only beginning April, then only \$39 million were raised in the last nine months when the system was operating under the Democratic Labour Party tax scheme.

And that therefore in a nine month period there was a cost to the revenue not of \$57 million as he wants to claim, but in a nine month period there was a cost of \$79 million, and I also say, Mr. Speaker, that they received \$39 million in income tax for nine months. Then the Minister of Finance cannot possibly hope to raise anything near the \$100m. in income tax that he is projecting for next year. He is also trying to overestimate his revenue position.

Large refunds

He will carry large refunds into the next financial year because he did not give a tax-free month last year, to those earning more than \$15,000 so that they can make the adjustment, and no provision was made to refund those persons earning less than \$15,000. And in the course of my discussion Sir, of the new tax proposals they brought to this House, I will seek to illustrate the way in which the minister realising this, you are now trying to ensure that you minimise the burden of the income tax refunds that you will face next year.

And that is part of the strategy of the new tax proposals. Some of the measures as well, Mr. Speaker, are linked to expenditure, the undimitted mortgage allowance, the unlimited building repairs, the unlimited medical expenses, and the minister if he was realistic, would understand that they would not have an instantaneous effect in 1986 but that the effect of those types of tax allowances linked to expenditure would have an effect on his revenues, not so much in 1986, but after the expenditures have been made.

The minister therefore, Mr. Speaker, now realise that our estimates were correct and he had indicated his own income tax projections to disguise the true deficit that we are likely to face, and he is attempting to use, as I will explain later, a number of unusual means, Sir, to avoid having to meet the refunds that will clog him, which I have said he will have to face next year.

As regards the Corporation Tax, Sir, the minister knows that some of his receipts this year were based on the fact that some Corporation Tax payable in 1985 on which people were given an extension and that those were due in this last financial year.

He will also know, Mr. Speaker, that is a fact, that although many companies have reported record profits, they have ended up paying less corporation tax and that in any event the true cost of the treasury, is the difference between the tax that they would have paid at a rate of 45 per cent and the tax they are now paying at 35 per cent.

He has seen the writing on the wall where the hotel and restaurant sales tax is concerned and remember, Sir, he introduced his last proposals to take effect in such a way that they could not have a full impact on his financial position in 1986-87.

The hotel and restaurant sales tax fell by \$1 million in December, as compared to the same period in 1985 despite the fact that you had more tourists, and more tourist spending in Barbados in December, as compared to 1985, and he knows that the writing is on the wall.

Import duties

He also knows Mr. Speaker that increases in the consumption taxes and the import duties relate to a five per cent rate of growth of the economy. And that increases, such large increase as would have been realised last year, cannot be realised this year, cannot be realised this year if as the Central Bank is telling him there is decline in activity in this country.

On the expenditure side the Minister of Finance also knows that from as early as November last year spending on current accounts was restrained not because of any notion of efficiency, but simply because Government refused to pay its bills.

He must also know, Mr. Speaker, that a directive was sent out from the Ministry of Finance, and that there was a permanent secretaries debate in February, stipulating that spending for

the month of March should be limited largely, paying virtually solely to the payment of wages and salaries, and if he does know it, the persons who received welfare grants all across Barbados, the fatherless children, and so on, will tell him, Mr. Speaker, that on the last receipt of their cheques the national assistance grant was half what they are entitled to.

That is a matter of fact and the minister must not express surprise at it, it is a matter of fact. That the welfare grant Mr. Speaker, if the minister doesn't know he had better check, that the welfare grants were half what they were supposed to be.

It is a fact. He knows, he must know Mr. Speaker, as every accounting officer in the public service knows, as all the persons to whom Government owes money know, that all the persons receiving national assistance grants in Barbados know, that his statement of his current expenditure for last year is deflated artificially, by his not paying his bills.

And that he has to carry a large amount of accounts payable into the next financial year. I say therefore, Mr. Speaker, that without increased taxation the minister will face this type of situation in the next fiscal year. The deficit as already set out in the estimates of expenditure are set at a \$189 million, they do not cover the overall deficit, Sir.

Borrowing

Government borrowing requirements to run the country and to carry out projects is set at a \$189 million, it does not include the civil service salary increases which are in fact not \$26 million, but are in fact in the vicinity of \$45 million.

And Mr. Speaker, if you wanted to have firm proof of the incompetence of the Ministry of the Public Service and the Minister of Finance, that proof is to be found in their inability even to cost a wage increase package.

The nine per cent, Mr. Speaker, and it is a simple exercise. The civil servants are to be granted, Sir, nine per cent increase in the first year, and a two per cent in the second. That nine per cent increase, Mr. Speaker, is a nine per cent on income, on wage and salaries for 1985. The nine per cent, Mr. Speaker, for 1986, amounts to \$18 million.

But the Minister of the Public Service, and we are spending a lot of money on a ministry of the public service, seems to forget that nine percent is also carried on over into the next financial year and that a two per

cent has to be added on to it, as well.

That nine per cent increase, Sir, in wages and salaries in 1986 over 1985 that leads to a \$18 million increase in wages, Sir is also carried on into 1987, plus the two per cent increase of wages and salaries that the Government has granted, so that the full increase in the wage bill is not \$26 million but it is in fact, Mr. Speaker, in the vicinity of \$45 million.

In the deficit

So that the financial position is today, Sir, \$189 million in the deficit to the Estimates, \$45 million which he has to find to pay the backpay, to increase the civil servant salaries also for 1987.

His accounts payable which could be as high as \$20 million now, and also, Mr. Speaker, this is the question of judgement, he will also if he is realistic know that he has overestimated his current income receipts and that by the best professional judgement his revenue projections are overstated by as much as \$20 million.

And when you add it together, Mr. Speaker, the full amount of the overall Government deficit for 1987-88 would be in the vicinity of \$274 million. That is a fact.

How has he proposed to deal with it, Sir? Last year, Mr. Speaker, he borrowed \$137 million from abroad from foreign commercial banks, plus \$50 million from multi-national institutions and \$60 million, Sir, from local sources. For this year he has recently borrowed almost \$100 million from Barclays abroad.

The estimates of expenditure shows that he will raise \$76 million, Sir, from multinational institutions such as the World Bank, the IADB and so on, that is a \$178 million; \$52 million, Sir, are now to be raised in taxes to bring you to \$228 million, and no doubt, Sir, he will have to have an additional go at the local banking system to make up the rest of his deficit. It is truly believed that if the minister's deficit was only \$189 million as he wants to say, that he would borrow a \$100 million from Barclays, made provision to borrow \$76 million from multi-national institutions as set out in the Estimates, and also come to borrow \$52 million, Sir, to raise \$52 million in taxes. He knows that his overall deficit, Mr. Speaker, will be in the vicinity of over \$270 million and this range of taxes that he is imposing is meant to help take him out of his financial bind.

I want, Sir, to deal very specifically with some of the new measures that the minister has introduced. He proposes,

Sir to set up an investment council aimed at dealing with industrial and commercial enterprises that may benefit from a regime of offshore business.

It was another task force, Sir, just another task force, part of a Government philosophy which says that if you can't run the country you must call in Kirpalani.

He has, Mr. Speaker, decided to set up a security that gives concessions to the Securities Exchange, and he will waive stamp duty and property transfer tax on transactions passing the Stock Exchange, but then that was something that was always conceived of from the time the Stock Exchange was conceived. And I announced it even before him.

He also, Mr. Speaker, intends to set up a venture capital fund based on recommendations coming from the Barbados Employers Confederation.

It is not a bad idea, Mr. Speaker, but I think that the minister should in a responsible frame of mind tell us what are some of the conditionalities that will attach that venture capital fund. And I must read it, Sir, and I make this a document of the House. The Barbados Employers Confederation proposals submitted to the task force, appointed to consider and report on measures to relieve unemployment in the country.

Proposed effort

And it says the proposed effort to establish, page 17, the proposed effort to establish a venture capital facility which will help to encourage risk taking by our entrepreneurs in new ventures. The state should under any such scheme guarantee a portion of any losses which may be incurred during the first five years of any of these enterprises.

So that the operation of this new venture capital facility, Mr. Speaker, could well put this Government in a position where it will have to be underwriting the losses of private operators at a time when the Government is finding it against its own declared policy to underwrite the losses of its own state corporations incurred during the first five years of their corporations operations.

And I therefore, Mr. Speaker, would be very glad if the minister would not just announce this venture capital facility as a grand design, but tell the people of the country what exactly may be the fine print attached to it.

In regard, Sir, to the specific tax measures, the Minister of Finance proposes to make tax reserve certificates available which would allow

people, Mr. Speaker, to pay taxes in advance. And the only reason why the Minister of Finance would want you to pay your taxes in advance is that he is expecting difficult financial times.

Take advantage

And I also want to say, Mr. Speaker, that the only people in this country who would be able to take advantage of any such tax certificates, are the persons, particularly people in the corporate sector, the commercial corporate sector, who have \$130 million, Mr. Speaker, at the end of 1985 in reserves in the bank, who have had their corporation tax reduced, and who will now find themselves in a position to lend to Government, knowing that they will avoid the low rate of tax that they are getting on their deposits in the banking system and that they will be getting a higher rate of interest from the Government tax free because it is tax-free.

And they will end up only adding to the cost of running the Government by this measure and putting more money in the hands of the people who have benefited most from the July tax proposals.

He plans as well, Mr. Speaker, to introduce what he calls Tax Refund Certificates. In September of last year, the BLP reacted to statements appearing in the Press that because of financial difficulties the Government was going to ask people to accept income tax bonds in lieu of the receipt of their tax refunds.

The Government then said "no way". We know now that tax refunds in September of 1986 amounted to \$18 million and that to avoid the embarrassment of issuing bonds at that time, the Government resorted to using \$8 million of the health levy to help carry itself in that month. It is all in the Accountant General's report.

You netted it off in November. But you had said then there could never be any bond issue against income tax returns. All you did, was that your income tax certificates, your income tax bonds, you postponed it from September last year, to April this year and you must now tell us if you are not expecting to have a large amount of income tax refunds for next year, why are you put to the necessity of having to ask people, if they wish, to take income tax bonds in lieu of income tax refunds.

In regard Sir, to the three per cent of the pre-tax profit that the minister is now getting from the commercial sector in order to help finance market development — I just want to make a number of points, Sir.

Development

Now first of all, Mr. Speaker, this type of development is not so much a policy introduced by the Democratic Labour Party, but it is linked to the market research and development allowances introduced by the former minister of finance. That is the first point.

The second point, Sir, is that by allowing us to be paid out of pre-tax profit, and then also allowing the large commercial business in Barbados to take advantage of the market development allowance, you are going to put those persons able to benefit from this type of tax proposal in a position where they actually will end up refusing their taxes as a result by as much as, Sir, \$2.67 for each \$100 put into it.

I deal now, Sir, with the levies. The Democratic Labour Party went on record as far back as 1963, as saying that if it were ever to gain office in this country it would abolish the health levy and the transport levy. The minister of finance is on record as having said that.

The use of the levies this year, Mr. Speaker, to raise funds for Budgetary purposes is a move which take away the full benefits of the wage increases that certain sections of the Barbadian population have enjoyed recently.

Training levy

The training levy, Sir, is already going into the consolidated fund. The training levy amounts to \$1.5 million and only \$3 million is being spent by the Government on training for the next financial year. They have a surplus of \$1 million to help buy stationery.

Without indicating supplementary provisions for increasing training as he has done for housing, the money that he is raising under the guise of a training levy is merely a new revenue measure which will simply go into Government's consolidated fund without leading to one young person in this country being trained ... because if, Mr. Speaker, some of these funds were to be put into training, the minister would have to indicate by how much he would supplement the training vote in the same way that he has indicated by how much he is intending to supplement the housing vote.

And it is to be paid, Mr. Speaker, Sir, by employees. The increased health levy is also, Sir, to be borne by employees, and the House must note that there is already a surplus of \$12 million in the health levy over and above the necessary to finance those parts of the National Health Service that this Government has decided to retain.

The transport levy, is, as I understand it, Sir, to help finance part of the losses of the Transport Board. But what will their impact be on people? For those persons who did not benefit from the Democratic Labour income tax proposal, they will find immediately that they have now, Mr. Speaker, to pay these new levies and that their disposable income will be reduced immediately.

Those persons, Mr. Speaker, who are earning over \$15 000 will find that they have got a double leak; that not only have the levies been increased, but also that the income against which they had to pay taxes will also be increased, because the minister has also decided that as for the future you are no longer in a position to deduct your payment of the levies from your assessable income in determining how much tax you should pay. And for a lot of civil servants who have received \$74 increase, these levies will completely erode any wage advantage that they have experienced.

Mr. Speaker Sir, I really must deal with the consumption tax changes, because these really are the heart of the Government's new fiscal adjustment. The Government made us to believe that the minister of finance was only trifling with a few things like caviar and frogs legs and so on. But, as I had said, Sir, he is a finger spinner; he will beat you with flight and spin and you have to watch him through the air and off the wicket.

What are the facts? That before in this country, and I'll read them, Sir, Chapter and verse, that before in this country fish was never subject to a consumption tax; fish, fresh, chilled or frozen. The present rate of tax, Mr. Speaker, on fish, is zero. The proposed tax on fish, local and regional is now six per cent, and for extra-regional fish 16 per cent. We start paying consumption tax on fish.

Fish dried, salted and in brine, Sir, no consumption tax before, a consumption tax now of six per cent on all fish, local and imported.

He has imposed taxes, Sir on things like human hair, horse hair, but those should not detain us.

Before, Mr. Speaker, there was never a consumption tax on vegetables in this country. There was never a consumption tax in Barbados on vegetables. With this Budget you are going to have to pay a consumption tax of six per cent on tomatoes, local tomatoes, Sir, string beans, pigeon peas, black eye peas, carrots, cucumbers.

There was never, Sir, a consumption tax on mangoes, now you're to pay a

consumption tax, Sir, even on mangoes — local mangoes, imported mangoes; on grapes, on nuts, apples which never had taxes before, you have to pay them now.

Consumption tax

There was never a consumption tax, Mr. Speaker, Sir, on sugar confectionery, sweets for children. That now, Sir, has to be paid; on chocolates, never a consumption tax before, has to be paid. A consumption tax, Mr. Speaker, has now been declared on all vegetables and fruits; on tomato ketchup and tomato sauce; on soups and broths where there was none before.

A consumption tax, Mr. Speaker, has been imposed on beer, increasing from 50 cents a litre to 75 cents a litre, for both local, regional beer and extra-regional beer. Of course there has been consumption tax increases on sprits, which the minister has also announced.

Consumption tax, Mr. Speaker, on things like shampoo, has been raised from five per cent to ten per cent on locally produced products and ten per cent on products brought from abroad. On perfumes, cosmetics, manicure preparations, products for hair care, the consumption tax Sir has been increased. There was never, Sir, a consumption tax on soap and the consumption tax has now been increased on soap to six per cent on local and regional products and 13 per cent on products imported from outside the region.

Even on polish

He's even imposed consumption tax, Sir, on shoe polish. All photographic equipment, Sir, casual leather, sheep leather, shoes Mr. Speaker, there has been an increase in the consumption taxes on shoes, on all forms of clothing. Mr. Speaker, even on walking sticks and umbrellas.

The fact, Mr. Speaker Sir, is that there is no item used by the ordinary man in Barbados, including matches, that is not now to be subjected to a consumption tax; and the minister would want to pass it off to the country that the only thing that he has touched up a little bit are things like frogs' leg, caviar, whisky and crab meat and other luxury goods.

The truth is that vegetables whether locally produced or imported; all forms of clothing, whether locally produced or imported, refrigerators, stoves, typewriters and other forms of office equipment and materials have now been subjected to consumption tax.

Exercise books, Mr. Speaker, stockings, brassieres, undergarments, locally produced or imported, all have to bear an increase in consumption tax.

Mr. Speaker the Government wants to treat this as a laughing matter; but if we were to proceed, Sir, things like bed linen, toilet linen, kitchen linen, curtains, sacks and bags, all forms of footwear, headgear ... every conceivable item in Barbados is now to be subjected, Sir, to consumption tax.

And if that is not bad enough, Mr. Speaker, in addition to the Consumption Tax which is to be imposed, a three per cent increase in stamp duty is to be added on on top of the Consumption Tax.

Full effect

The minister should tell the House, what is likely to be the full effect of those increases. The facts are, Mr. Speaker, that whereas the consumption tax will yield only \$11.9 million by his estimates, Sir, and the stamp duty will also yield \$14 million, the minister must remember that when such taxes are paid at the point of entry, there will usually be a mark-up by the commission agents of at least ten per cent; there will be a 15 per cent increase by the wholesalers and 25 per cent increase by the retailers. And although, Mr. Speaker, it may appear that the cost to the taxpayers will only be \$25 million, once those mark-ups have been increased, the full effect of these tax measures on the people of Barbados, as measured in the only possible way in which they should be measured will be in the vicinity, Mr. Speaker, of at least \$50-odd million... when we take the tax, plus what will have to go to the commission agents, to the retailers and the wholesalers, that full cost will be between \$53 and \$60 million.

And you are doing that at time when you are reducing the disposable income of all those in this country earning less than \$15 000 a year by strapping levies on them. You are doing that at a time, Mr. Speaker, when you are decreasing the disposable income of those above \$15 000 a year, Mr. Speaker, by removing the levies as deductions against assessable income and adding on additional levies for them to bear.

And I say, Mr. Speaker, Sir, that these taxes are wide in scope that the minister has led this country to believe; that the difference except in a few instances, the difference between the consumption tax for locally produced goods and foreign goods is not wide and, in most cases, they are set at the same;

so that you are not provided a basis on which locally produced commodities, Mr. Speaker, can have a competitive advantage against imported commodities; and you are going to bring about in this country, a level of price increases that will completely set back and erode any benefits that may have accrued to the taxpayers of this country by recent changes in taxes.

Old person

That the old person, Mr. Speaker, Sir, who now has to buy a cake of soap, to buy a cucumber, will now have to pay a consumption tax on those things where there was no tax.

That an old person now, Sir, has to pay increased taxes on matches without any change at all, Mr. Speaker, in their pensions.

That all persons in Barbados, Mr. Speaker, who would have in the past throughout our long history never had to pay a consumption tax on a locally produced vegetable, because we in the BLP could not understand why you should put consumption taxes on locally produced vegetables, will have now as a result of the financial mismanagement of this minister, Sir, will have to pay consumption taxes on such commodities.

Nobody in Barbados, Sir, nobody at all, has been relieved by the complete range of the minister's list of consumption taxes, Sir, which range from walking sticks to caviar.

Mr. Speaker, Sir, I want, in addition, to raise a few other matters, Sir, that the minister did not talk about but which could also have an effect on people's disposable income.

There is a circular which has been sent to Government departments which needs careful explanation. It purports Mr. Speaker, that departments should add the arrears for the period April to December to the income received by civil servants in that year. Having added the arrears, calculate their gross assessable income. Sir, as if they received the backpay in 1986 and thereafter compute their tax payable as if the backpay had been paid out in 1986.

Now this will have two very serious effects, if it is followed through on the civil servants of this country. You are asking them to pretend that they received the backpay in 1986. Add the arrears for the period April to December to income received, so their taxable income will go up and they will become entitled to less tax refund than is the case as it stands. That is a fact.

And in addition, Mr. Speaker, when income tax is paid in an income year on

income received, the back pay was not received in 1986; it is to be received, we hope, in April 1987, so that if you ask the Government department to add that portion of the backpay applicable for the period April to December 1986 on to income received you are finding an unusual way of reducing the amount of tax refunds to which people are entitled. That is a fact. And thereafter, Mr. Speaker, having reduced the amount of income tax funds to which persons would be entitled Mr. Speaker, when the backpay becomes payable in 1987 it becomes subject to tax as well on that portion of the backpay for the period January 1987 to March 1987.

The approach

I am saying Mr. Speaker, that if that is the approach that Government wants to follow, it will be putting a double link on the civil servants of this country. It will be asking them Sir, to reduce their tax refunds by pretending that they have received the backpay last year and you are also Mr. Speaker, putting them, having drawn out a long period of time the payment of wages to the civil servants of this country, you will be putting them in a higher tax bracket and charging them taxes on that higher income purely because of the long drawnout process of the negotiations between the Government and the civil service.

That, Mr. Speaker, Sir is an administrative arrangement Sir, which is going to worsen the lot of civil servants precisely at the time when they are being asked to carry a larger consumption tax burden, a larger levy burden sir, as well as to pay levies to have their levies removed as deductions against their tax liability.

I want Mr. Speaker, Sir, to touch on the question of energy. Mr. Speaker, at February of 1986 when the Democratic Labour Party was asking for gasoline prices to be dropped to 95 cents a litre, crude oil prices were then \$26 a barrel. When we set energy prices Sir, it was in the light of a fall of crude oil prices and the reference to \$15.14 cents a barrel, and the manner in which we set out energy prices was of a character that allowed part of the fall in the energy price to be passed on, at the pump, to be

passed on, by a massive cut in the consumption tax on fuel oil. As well Mr. Speaker, we also decided to retain these because it was our intention to maintain a minimum exploration and drilling programme in the knowledge Mr. Speaker, that we would be keeping people at work and would be expanding the reserves of gas for Barbados

making projects such as the LPG plant and the wider distribution of natural gas in this country possible.

By July when the Democratic Labour Party dropped the price of gasoline to 95 cents a litre, Sir, the price of crude had dropped to as low as \$10, and you drop the price of gasoline to 95 cents per litre, by reducing the consumption tax on gasoline for sure but making up for such loss you incurred by increasing the consumption tax on crude oil and kerosene.

The price that entails Sir, is that if you have not increased the consumption tax of fuel oil and kerosene that you would have been able to pass a larger part of that price decrease throughout the wider society to the benefit of the productive sectors.

In September of the year Sir, in September of last year, crude oil prices dropped again and the benefit was passed on to nobody they were taken in full, they were taken in full by the Minister of Finance increasing the consumption tax on gasoline and diesel by way of an order.

But the fact Sir, is that we now know that fuel prices are not at the level which I now view in July last year and in September last year to bring down gas prices to levels which now prevail. And we are asking the Government Mr. Speaker, that if there are price changes to be made in the prices of energy products to compensate for the fact that the price of energy crude has increased then the Government has a responsibility to let the people know because in a sense, Mr. Speaker, what we are

doing this evening, is trying not only to discuss how the Government proposes to get itself out of a financial matter, but we are also Mr. Speaker, discussing the price that will be paid by various sections of the population, for the tax changes and other price changes that Government is bringing about.

And we need Mr. Speaker, to view those price changes in their totality, so that we can give a full account to the House sir, that reflects the true position that all sections of this population may face.

And Mr. Speaker, when I reflect on the range of taxes that have been introduced, the way in which these taxes will fall on different sections of the Barbadian community Sir, when I reflect Sir on the change in the economic prospects of Barbados, brought about by the policies of the Democratic Labour Party, I am reminded Mr. Speaker, of that quotation by Shakespeare, in two parts; immortalised, Mr. Speaker, in the mouth of Brutus in Julius Caesar. The first part says that there is a tide in the affairs of men which taken at the flood leads on to fortune. There was a tide Sir, in the affairs of people in this country, a political tide taken at the flood and it has led on to the political fortune of the Democratic Labour Party. But the second part, or the second part Sir, of that quotation is instructed, it says omitted all the voyages of their lives is bound in shallows and misery, in shallows and misery on such a full speed are we now afloat. And I oblige you Mr. Speaker.

ADVOCATE Comment

Bridgetown BARBADOS ADVOCATE in English 9 Apr 87 p 4

[Editorial]

[Text]

When the July 1986 Budget and Tuesday's Budget are taken together, as Finance Minister Dr. Richie Haynes urges, the picture that emerges is inconsistent with the argument that Barbadians are overtaxed and that what is urgently needed is to lighten the tax burden.

The statement of the two Budgets put more accurately is that certain Barbadians were overtaxed and the burden of taxation needed to be shifted from direct to indirect taxation, for that is precisely what has been done.

Last Tuesday's Budget was presented against a background of a five per cent growth in the economy and a 1.3 per cent inflation rate both of which the Finance Minister celebrated, even though he also gave the clearest possible evidence that these successes were the result of earlier policies and certain external factors.

The external factors to which we refer are the appreciation of other currencies against the US dollar from which sugar and tourism, in particular, benefited and the fall in oil prices which had a general effect.

Reflected in details

The policies already in place are reflected in the details given by the Minister in regard to cruise ship visits, summer tourism, housing starts, housing completions, solar heating installations, beef and pork production and the like, all of which take time to achieve.

What was done in July 1986 was the release of both individual and corporate spending power with the objective of stimulating economic growth and employment. The view of the Task Force on Employment was that results from

this could not be seen for 18 months or so. This would seem to be reasonable.

The Minister's other boast was that his fiscal measures have worked and quoted results which were superior to those obtained in the two years immediately preceding.

But we must bear in mind the decision not to pay bills late in the Financial Year and the steps taken to keep the Civil Service salary increases out of the 1986-87 accounts.

By postponing to the 1987-88 current account what should have appeared in the 1986-87 current account, the deficit is made to look artificially small and the true situation maybe masked forever because of the heavy dose of taxation from which the 1987-88 account will benefit.

In addition the Minister would hardly have needed to unleash such heavy taxation if the picture was as rosy as he would have us believe. When the payroll tax designed to reduce the Transport Board subsidy is added in, as it should be, the new measures will net almost \$50 million, and they cover a number of items, like fruit and vegetables, that did not previously attract tax.

Back to policy

It would appear, although the Finance Minister has not said so, that we have gone back to a policy of financing capital expenditure out of foreign borrowings and current account surpluses. He has been borrowing heavily abroad and now he has brought in a Budget which will restore fiscal strength.

The Budget will certainly bring some inflation, but that is perhaps the price the Finance Minister is

prepared to pay to achieve his economic goals.

The Minister has been silent on sugar and non-specific on employment generation. Certain of his measures, like the public investment instruments ought to produce more jobs when applied and he has promised implementation of some of the proposals of the Task Force, but he has not said which ones.

Similarly, he has spelt out some institutional innovation to give financial support to his policies, but the measure that is clearly understood, and will be of un-

doubted benefit, is the Securities Exchange which is not new. Perhaps more will be spelt out during the debate.

What stands out in this Budget, however, is the reorientation of tax policy toward indirect taxation which will bring some erosion of the standard of living of those at the bottom of the economic pyramid, the inflationary nature of the proposals, and the extent of the taxation that has been deemed necessary, notwithstanding the boast that the fiscal measures have worked.

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CSO: 3298/207

PROBLEM OF NATIONAL DEBT, SERVICING DRAWS ATTENTION

Burden for Next Fiscal Year

Bridgetown BARBADOS ADVOCATE in English 24 Mar 87 p 1

[Text]

Government will have to find in excess of \$80 million during the coming financial year to repay foreign debts, Minister of the Public Service, Senator Harcourt Lewis has said.

He made the announcement yesterday in the Senate which started debate on the 1987-88 Estimates.

Debates on the Estimates are expected to end tomorrow in the Upper Chamber of Parliament having been already approved by the Lower Chamber.

Senator Lewis noted that the new Democratic Labour Party Government had inherited a problem which had forced it to meet repayment of substantial foreign currency loans and interest over a four-year period because of the bunching of debt.

The provision for debt servicing during the coming financial year would include \$41 million interest on foreign loans; \$33 million interest on domestic loans; \$40 million for the redemption of foreign loans; and \$18.6 million for

redemption of domestic loans.

The Public Service Minister noted that another area of expenditure which has been causing concern was the substantial amount Government would have to provide to non-financial public enterprises amounting to approximately \$92.5 million this coming financial year.

Unit set up

He noted that a State Enterprises Unit within the Prime Minister's office had been set up to carry out the work started by Dr. George Reid, a permanent secretary now on secondment to an international organisation.

In looking at Estimates directly, Senator Lewis noted that Current Revenues were anticipated at \$698 million and Current Expenditure \$711.6 million with a shortfall on current account of \$13.5 million.

He pointed out that since the introduction of the Appropriation Bill in the House of Assembly, there have been several alterations.

The functional sources of revenue are: taxes on income and profits \$168 million; taxes on property \$32.3 million; taxes on goods and services \$203.6 million; taxes on international trade \$123 million; other taxes \$0.9 million; non tax revenue \$40.9 million; special receipts \$31.8 million, and loans and advances \$7.3 million.

He pointed out that there was a projected decrease in revenue when compared with the Estimates for 1986-87.

On the other hand, current expenditures are projected to increase by 1.45 per cent over the previous year's estimate, while there will be additional expenditure on increased salaries of \$18.6 million and on pensions of \$2.4 million.

Senator Lewis stated that every legitimate effort would be made to restrain the spiralling annual recurrent expenditure patterns and every ministry and department would be subjected to scrutiny in the Government's efforts to effect savings on expenditure.

BLP Government's Responsibility

Bridgetown BARBADOS ADVOCATE in English 25 Mar 87 p 1

[Text]

Government has borrowed a total of \$105 million from external sources since assuming office last May; while it has had to pay out \$176 million to service foreign debts during the same period.

This was disclosed by Parliamentary Secretary in the Prime Minister's Office, Senator Anderson Morrison as he spoke during the debate on the 1987-88 Estimates which continued in the Upper House yesterday.

He said that whatever foreign exchange problems the country had been experiencing resulted from the previous Barbados Labour Party administration, since the amount of borrowing to which that Government committed itself left the new DLP administration with a debt burden which he said: "we cannot turn our backs on."

Senator Morrison argued that the future of this country had been very soundly and well mortgaged.

The Government Senator noted that the country's foreign reserves

were in a sound position and up to yesterday stood at \$294 million, an amount described as being adequate to meet the country's needs for at least four months.

Senator Morrison said that last year was one of revival with political, social and economic rebirth, noting that the Opposition and the press would have the people believe that it had been a period of doom and gloom.

Far better year

However, he said, that an examination of 1985 would show that 1986 was a far better year in terms of growth for Barbados in all sectors of the economy except non-sugar agriculture.

The economy grew by five per cent during the last year, he stated.

The Parliamentary Secretary said that the Government would not apologise for having introduced a fiscal policy which had created a rebirth in the country. He described the situation as a very successful beginning to a new fiscal policy.

In looking at the sugar industry,

Senator Morrison said this industry had always been a big problem to both political parties, which had made contributions at various times to the production of sugar.

He said the DLP administration has always advocated that a specific amount of acreage be devoted to sugar while pursuing diversification, and added that the Prime Minister, Mr. Errol Barrow was not opposed to sugar.

Senator Morrison who said that the DLP had always been in the forefront of supporting sugar pointed to the assistance given the industry over the years. He said it hurt his heart when Searles Sugar factory had to closed.

The Parliamentary Secretary, who once served as an Agriculture Minister in a former DLP administration, said his party had done extensive research on the production of vegetables, pointing out the difficulties when Government had turned over the thrust in growing vegetables to the private sector. He noted that it was only recently that the large plantations had turned to growing vegetables.

Increase in Debt

Bridgetown BARBADOS ADVOCATE in English 21 Apr 87 p 1

[Text]

The Barbados National Debt stood at \$1 288.3 million at the end of January this year, a Central Bank of Barbados bulletin has shown.

The bank's Economic and Financial Statistics for the month of March revealed that the debt increased by \$45.5 million between the end of December last year and the end of January this year.

The Central Bank bulletin also showed increases in both the domestic and foreign component of the debt. The domestic component moved from \$699.3 million to \$729.6

million while the foreign component moved from \$553.5 million to \$588.7 million.

At the end of last year, the total debt stood at \$1 252.8 million, which, according to the Economic Report, reflected a 15.1 per cent or \$184 million increase over the \$1 068.8 million recorded at December 1985.

The build up in the national debt has been a bone of contention between the major political parties in Barbados with the Government being highly critical of the Op-

position for the massive build up of the foreign debt during the last 10 years.

In the meantime, the foreign reserves have increased over the levels recorded at December last year which were slightly below the levels for January last year.

According to the Central Bank's report the foreign reserves at the end of January amounted to \$314.9 million, up from the \$304.5 million in December last year.

The reserves stood at \$319.3 million at the end of January 1986.

/9317
CSO: 3298/207

WORKERS UNION OFFICIAL DISCUSSES UNION'S POLITICAL TIES

Bridgetown SUNDAY SUN in English 22 Mar 87 p 28

[Excerpts]

Robert Morris is Deputy General Secretary and Personal Assistant to the General Secretary of the Barbados Workers' Union. He has been working full time with the Union since 1981.

A former tutor at the University of the West Indies and the Community College, Morris has gained prominence in Barbados for articulating the cause of the worker and emphasising the history of the working class struggle.

In last year's general elections as a candidate for the Democratic Labour Party, he defeated the then Prime Minister Bernard St.John in Christ church East Central constituency.

In this Q & A session with Sunday SUN Editor Tony Vanterpool, Robert Morris speaks words of wisdom to the cynics.

Q: LAST SUNDAY General Secretary of the Barbados Workers' Union, Senator Frank Walcott, told members of various committees of management attending the half-yearly meeting at Solidarity House of plans for May Day.

May Day used to be celebrated on the first day in May every year but the Barbados Labour Party , when it was in power, changed this to the first Monday in May. Now the Democratic Labour Party has changed it back to the first day in May. Do you these changes are of any major significance?

A: I think the return to May 1 is of symbolic importance for the workers. It is an indication of the position taken by the workers when Government decided to change from May 1 to the first Monday in May.

Q: Now you must have a large captive audience; what is the strength of the Union? How many divisions do you have?

A: We have got about 25 000 members. There are approximately 150 divisions. But there are also several other small divisions.

Q: Is this the first year that there has been so much member input into the planning of May Day?

A: It has been a gradual thing. We have always encouraged membership participation but on this particular occasion I think that we have maximised that participation.

Q: You know what has always amazed me? It is that over the years no other general workers' union has been able to challenge the position of the Barbados Workers' Union. What do you think is responsible for this?

A: A union's continuity is largely a reflection of its service to its members. And I think that having been established very early as an umbrella general workers' union, and having maintained a record of performance which comes out very clearly in its achievements over the years, the Union has been able to maintain its position in the industrial relations situation of Barbados.

It is a good thing for Barbados because my assessment of the labour movement in other countries is that fragmentation of the movement leads generally to the weakening of the union in relation to its dealing with other social partners. Where you have a state that is one obviously to be united and an employers' movement that is relatively easily united but a fragmented industrial relations group, then you are looking for a number of things. You are looking first of all for that group to find difficulty in coordinating its objectives and realising its aims and its goals. You will find difficulty in things like jurisdictional disputes which might reach the level of poaching — one union poaching against the other — and you will find sometimes the attempt by one union to back-raise the other and it leads to a certain amount of

turmoil and unsettlement at the industrial relations level.

I think therefore it has always been to the advantage of the workers of Barbados that there has been one strong general workers union and I think that the historical pattern through the Caribbean where you have for instance the bi-polar system of two powerful unions backing two powerful political parties — the Jamaica model which has now also appeared in certain other places like Antigua and so on — led to certain cleavages and certain difficulties in the industrial life of a country.

Or with the model where you have a multiplicity of unions, as in Trinidad and so on, I think again this is also fraught with difficulty...each union having a different power base; each union leaning toward different ideological considerations.

I think that of the models, the one that has shown the greatest control and the greatest maturity is the one that we have in Barbados where you have a big trade union as an independent industrial organisation that puts the workers first in all of its objectives; that might give support to either political party but is not controlled by any political party.

I think the multi-facetedness of this Barbados Workers' Union indicates that perhaps its structure is the best structure for our country and that is why the union continues to attract membership from among the workers and to also gain the respect of the society as a whole.

Q: What do you have to say to those people who would say that the BWU is "going to town" this May Day because the DLP is in power?

A: The Union's support in 1987 for May Day being May 1 again, the 50th anniversary of the Disturbances and the 21st anniversary of Independence could not be interpreted to be supportive of a political party. It so happens coincidentally that these events which are historically determined come at a time when a particular administration is in power. But if these events occurred under another administration that certainly could not dictate the Union's approach to the importance of these events. I think the Union is on record as celebrating milestones in the development of the labourers of this country which belongs to the working class.

Q: But what about the claim that the BWU supports the DLP?

A: The trade union historically has at one stage been allied with the Barbados Labour Party. The history is that the two of them developed as organisations coming out of the Progressive League and at one time they shared offices, and so on.

History also suggests that there has been a change in terms of the relationship with that organisation. But there has never been any indication that the same pattern of relationship ever developed with the Democratic Labour Party. There has never been a situation where the president of the DLP was president of the BWU or the secretary of the DLP was secretary of the BWU. That kind of integral relationship has never existed and the Union still operates as an independent body.

That is extremely clear and I think that there can be no confusion that certain members of the BWU exercise their constitutional right to belong to a political party and to support the philosophy of that political party because it seems to be consonant with the philosophy that underlines trade unionism.

A case in point is the attitude to the May 1 issue where one political party was bent on changing a situation while the other party made it a manifesto pledge to return to that situation supported by the trade union; and as soon as they assumed office they took steps to make that kind of change.

It is a matter basically of analysis of the position taken by a particular political party *vis à vis* the labour movement and giving constructive support to the political party. Which does not mean however that should the same political party show in any way that it is against the interests of the workers, that it would continue to gain the support of the BWU...because the BWU puts the workers first and this has been so throughout our history.

The period of the first half of the '70s would indicate that the DLP had more conflict with the BWU than perhaps the period from 1976 to 1986 where there was no outright conflict generated by the Barbados Workers Union against the Barbados Labour Party.

BARBADOS

DRUGS, WEAPONS AMONG SEIZURES IN WIDESPREAD POLICE RAIDS

10 April Sweep

Bridgetown THE SUNDAY ADVOCATE in English 12 Apr 87 p 1

[Text] Police have made one of their biggest breakthroughs to date in the bid to curb and stamp out criminal activity on Barbados.

The lawmen launched a major offensive on Friday night and by the time they had completed their assignment yesterday morning had seized a quantity of illegal drugs and offensive weapons.

They also picked up some 100 people including six children during the exercise. Charges were brought against 28 of them.

The charges included loitering, being armed with offensive weapons, indecent language, illegal possession of drugs and causing a disturbance. The children, ranging in age from 10 years to 14 years, were picked up for wandering.

Some of those charged appeared yesterday before Magistrate Valton Bend in the District A Magistrate's Court.

The operation known as "Police Sweep" was concentrated in Baxters Road, New Orleans, Church Village, Greenfield, Chapman Lane and Ashby Alley (Nelson Street), all in St Michael, and St Lawrence Gap, Christ Church.

Acting Assistant Superintendent John Sealy told the Sunday Advocate that the operation, devised to allow the police to clear up criminal activities in specific areas, began at 11.50 p.m. on Friday and was completed around 4 a.m. yesterday.

The operation was managed by Senior Superintendent Alvin Griffith who is in charge of the Bridgetown Division with 120 officers from that department participating.

Visited Areas

Commissioner of Police Mr Orville Durant, Assistant Commissioner Mervyn Holder and Mr Sealey visited the areas.

According to Mr Sealy: "This, I believe, is the first such operation related to this kind of activity and we have been receiving a number of complaints from concerned citizens related to criminal activities and the disposition or abusing of drugs."

"The operation was designed to combat these activities," Mr Sealy said.

He pointed out that his department had been getting support from public spirited persons and "we hope that this will continue since we rely on this kind of information to assist us."

Mr Sealy also appealed to parents of young people, especially those who did not reside in the areas where the operation took place, to pay attention to the whereabouts of their children.

"I would like to appeal to parents to show more concern for the safety of their children," he said.

"We in the Royal Barbados Police Force are concerned about the care and safety of our children and we are in an all-out fight against the drug pushers who continue to abuse the vulnerability of some of our young people," the police official said.

Mr Sealy also reminded the public of the use of the police hotline.

Workers Party Criticism

Bridgetown THE SUNDAY ADVOCATE in English 19 Apr 87 p 1

[Text] The Workers' Party of Barbados (WPB) has voiced its concern over what it has described as "the qualitatively negative development in police methods in the handling of the present crime situation in the country."

In a recent press statement, the WPB said that it supported the attempts to rid the country of trafficking in illegal drugs and related crime but noted: "We cannot condone the breach of civil rights as a means of enforcing the law."

It continued: "the police have chosen a 'soft option' and easy targets to create no more than an impression that they have taken a serious response to the existing crime situation. They have chosen a 'dragnet' method aimed mainly at working class districts."

"All of Barbados knows that the hard option and the source of the drug trade is not located in these easy targets. The result of the "dramatic" April 10 raid also confirms this, with only 20 percent of those held being charged.

This 20 percent are no more than the "small fish."

Second Raid

Bridgetown SUNDAY SUN in English 19 Apr 87 p 44

[Article by Timothy Slinger]

[Text] Police carried out another anti-drug raid on Thursday night, arresting 11 persons, including a Christ Church married couple who were charged with the possession of cocaine.

The second such raid within a week, police netted an undisclosed amount of marijuana and cocaine and seized over \$4 000 from various suspects.

The areas concentrated on in the raids were Paradise Village and St Lawrence Gap in Christ Church and Green Fields, Chapman Lane, Westbury Road, New Orleans, Church Village and Ashby's Alley, Nelson Street in the City.

Yesterday a large crowd packed the District "A" Magistrate's Court to get a glimpse of those arrested on drug and loitering charges.

Michael Beckles, a 20-year-old barman of Ealing Park, Christ Church, was the only person to plead guilty to having marijuana in his possession on Thursday night.

Appearing before Magistrate Valton Bend, police prosecutor Sergeant Reuben Walker told the court Beckles was found with a small portion of the drug in his pocket on Ashby Alley, Nelson Street.

Beckles was fined \$500 payable in four weeks with the alternative of six months' imprisonment.

Married couple Carson and Natalie Lashley of Paradise Village, Christ Church, denied having cocaine and were each granted \$5 000 bail with sureties of a similar amount.

Among the others charged was John Brathwaite, a 33-year-old artist of 10th Avenue, St Barnabas Heights, St Michael, who also pleaded not guilty to having cocaine in his possession and was granted \$5 000 bail.

Thursday's police swoop came close on the heels of a similar exercise carried out two Saturdays ago and unlike the first midnight exercise, the police swooped down on the areas shortly after 8 p.m.

Most of the drug cases have been adjourned until mid-August.

Use of Warrants

Bridgetown SUNDAY SUN in English 19 Apr 87 p 44

[Test] The two police anti-drug operations carried out within the last week were of a different character.

This was stated yesterday by Police Public Relations Officer John Sealy. Sealy termed the first operation a "sweep" while that carried out last Thursday night was called a "raid."

The police official explained the difference: "There were no warrants for the first operation, but there were warrants this time. The intelligence gathered from the first operation was the groundwork for the second."

In the first police operation over 100 people were held with charges laid against 28. Last Thursday's "raid" saw the arrest of 12 persons, 11 of whom were charged.

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BOLIVIA

MINERS PROTEST GOVERNMENT POLICIES

La Paz PRESENCIA in Spanish 12 Mar 87 p 4

[Text] Potosi, 10 Mar--The workers and employees that remain in EMUCP [Unified Mining Enterprise of Cerro de Potosi] held a general assembly this Tuesday and declared a state of emergency, endorsing the resolutions of the Mineworkers Federation.

At the same time, the miners of Cerro Rico appealed to the people of Potosi "to defend the natural or mineral resources against intended irrational plundering by private enterprise."

They proposed the rehabilitation of EMUCP based on the interests of the district and the state "because it is the basis for subsistence of the Potosi people."

A document was issued after the assembly of EMUCP workers. One paragraph stated as follows:

"The people are tired of all the lies, deceit, and delays of the government and the executives of COMIBOL [Mining Corporation of Bolivia] in solving the problems of the workers facing the intolerable situation that is wiping out nationalized mines and wiping out the working class. Therefore, our main organization has decided to fight the antilabor and antinational policy of the MNR [Nationalist Revolutionary Movement]-ADN [Nationalist Democratic Action] Government."

The miners of Cerro Rico expressed their surprise "at the silent and symbolic installation of Eng Rene Torrejon as president of the Potosi Subsidiary Mining Enterprise (formerly EMUCP) in accord with the COMIBOL decentralization decree."

The miners revealed that "this installation was held here during the carnival without any participation by the people of Potosi or even the local press."

They indicated that the president and general manager of COMIBOL came to Villa Imperial for the installation of Eng Rene Torrejon.

Part of the pronouncement of the workers of Cerro Rico about the visit of these COMIBOL officials was as follows:

"The only thing they have done so far in the name of the rehabilitation of EMUCP is guarantee the lack of machinery, equipment, tools, accessories, etc., dismantle the grocery stores and the EMUCP Hospital, and other acts."

As to the wage problem, they maintain that "despite a promise from the minister of mining, they announce--to deceive us--that possibly in April there will be a ridiculous increase in our wages of shame and misery."

The miners of Cerro Rico in Potosi revealed: "As to education and health, these elemental services are completely left out for the workers of EMUCP through a government position that we call inhuman."

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CSO: 3348/263

BOLIVIA

ENAF TO PURCHASE COOPERATIVES' TIN PRODUCTION

La Paz PRESENCIA in Spanish 29 Mar 87 sec 2 p 3

[Text] Llallagua, 28 Mar--The Regional Federation of Mining Cooperatives of this sector which includes 20 de Octubre, Juan del Valle, Siglo XX, and Dolores held a joint meeting. They analyzed the marketing of the concentrates that they produce and other aspects that interest these groups of workers that have acquired importance and influence in the region.

Initially it was decided that minerals will be sold to ENAF [National Smelting Enterprise] because it offers some advantages as to the price of tin. However, for the first delivery of concentrates, ENAF must transfer the corresponding equipment to Catavi in order to receive the production of the cooperatives. Its transfer to the foundries will be ENAF's responsibility and payments are expected on time and according to contracts.

The leaders of these cooperatives suggest that subsequent deliveries should be paid for every 2 weeks. The payments should be complete because the workers in this sector will not accept deposits or other forms of delay in payment for the purchase of minerals.

Materials Required, Work Day

During the meeting, the requirements for mining materials were announced. According to the contract signed with government authorities and COMIBOL [Mining Corporation of Bolivia], priority should be given to supplying the Catavi Mining Enterprise with urgent requirements for the work done inside the mine.

The work system established for the different crews is an 8-hour day which begins from 6 am to 2 pm for the first shift, from 2 pm to 9 pm for the second, and from 9 pm to 5 am for the third.

It has also been announced that housing in some camps of the Catavi Mining Enterprise will be turned over to the cooperative members in accord with agreements signed with government authorities.

Production through the cooperative system is thus acquiring importance in the region. The activities of COMIBOL have been completely suspended and the

mineral deposits of the state entity are now being exploited by the cooperative system through leases. This system still maintains the hope that the importance of the region will not change and trade revitalization will be promoted so that the inhabitants do not leave the region.

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CSO: 3348/263

BOLIVIA

MINING COOPERATIVE SYSTEM DOUBLES TIN PRODUCTION YIELD

La Paz PRESENCIA in Spanish 29 Mar 87 p 8

[Text] INALCO [National Institute of Cooperatives] reported that the four mining cooperatives recently created in the Catavi and Siglo XX districts produced 200 refined tons of tin in the first 20 days of this month. This represents 400 gross tons of tin with a content of 50 percent.

The executive director of INALCO, Corsino Pereira, stated that the Siglo XX, 20 de Octubre, Juan del Valle, and Dolores Ltd. cooperatives began their activities in February, producing 150 refined tons of tin or 300 gross tons with a content of 50 percent.

Pereira recalled: "Before tin was produced by the cooperative system, COMIBOL [Mining Corporation of Bolivia] through the Catavi mining enterprise only managed to mine an average of 60 refined tons of tin a month."

He emphasized that this means "that the 3,500 mineworkers organized into production cooperatives managed to increase their production by more than 333.33 percent while the production system that COMIBOL maintained with more than 4,500 workers only produced minimal quantities of tin."

The INACOL director said that there are optimal yields per capita and levels of production under the cooperative system because 100 percent of the workers work inside the mine, eliminating nonproductiveness. Also "higher production will mean higher earnings, optimizing the levels of distribution and surpluses among members."

462 Cooperatives

INALCO reported that 462 mining cooperatives have been formed. Soon 12 workers relocated from the Catavi mining enterprise and grouped in a cooperative of mine transporters will benefit from the delivery of 12 trucks from COMIBOL. However, that delivery is subject to a 50-percent discount of the minimum compensation which will cover the initial share of the units that will work for the four mining cooperatives of Catavi and Siglo XX.

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CSO: 3348/263

LITHIUM MINE EXPLOITATION NOT EXPECTED BEFORE YEAR 2000

La Paz PRESENCIA in Spanish 29 Mar 87 p 1

[Text] Industria Minera Tierra Ltd. reported that it has done market and prefeasibility studies on mining lithium in Salar de Uyuni. It stated that the international demand for that product, "including its growth until the year 2000," is already met by existing lithium processing plants and their plans for expansion.

Industria Minera Tierra would like a concession to install a pilot plant in Salar de Uyuni. It said that, despite the fact that this deposit "is the largest reserve of lithium--5.5 million tons--in the world, mining lithium on a large scale in that region is not possible before the year 2000."

After noting that the demand and its projected growth would be met by existing production plants, it said: "In 1985, the demand of the Western world totaled 5,500 tons of metallic lithium equivalent to 65 million pounds of lithium carbonate. The U.S. Bureau of Mines estimates average growth at 6 percent per year. Therefore, the demand in the year 2000 will be 13,500 tons of metallic lithium or 160 million pounds of lithium carbonate."

It added: "The current installed production capacity of the Western world--basically the production of Foote Mineral, Lithium Corporation of America, and Chilean Lithium Company (Foote/CORFO [Production Development Corporation])--is 8,000 tons of lithium or 95 million pounds of lithium carbonate. The CORFO/AMAX project in Chile can be added to that. It will be able to produce 5,000 tons per year with the possibility of increasing production to 25,000 tons per year."

Industria Minera Tierra proposed the installation of a pilot plant for the production of lithium carbonate to CIRESU and offered to invest \$1 million. It felt that it is appropriate to begin the exploitation on a small scale. In its opinion, "it is not feasible for lithium mining in Salar de Uyuni to displace the production of Salar de Atacama in Chile in the next 15 years because production costs are lower in the neighboring country."

It noted the following reasons that costs are lower in Chile: "1. A higher average lithium concentration in Salar de Atacama, 1.7 g/l compared to 0.5 g/l in Salar de Uyuni. 2. A much higher percentage of magnesium in Salar de

Uyuni--21 parts of magnesium to 1 of lithium--which increases production costs compared to Chile which has a lower concentration of magnesium, 6 parts of magnesium to 1 of lithium. 3. A more favorable climate for solar evaporation in Salar de Atacama--20 degrees C. in June and 9 to 20 degrees C. in January. 4. Average annual rainfall of 25 mm in Atacama compared to 250 mm in Uyuni and the impossibility of working during the rainy season, December to February. 5. Closer proximity to the ports and better transportation routes in Chile."

In its analysis, Industria Minera Tierra added: "Nevertheless, mining in Salar de Uyuni is feasible and profitable on a small scale, especially in salt zones where the degree of lithium concentration is very high. For example, it is 4 g/l in Rio Grande. The international market can absorb production of 500 tons from the areas with higher lithium concentration. Many countries with reserves of this mineral are now doing small exploitations to develop appropriate technology and at least meet their domestic needs."

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CSO: 3348/263

BRIEFS

RECOVERY OF MINING SECTOR--Oruro, 11 Mar--There is a gradual recovery in the production and marketing of traditional minerals in the country in the opinion of top officials of BAMIN [Mining Bank of Bolivia]. The general manager of the bank was in this city yesterday accompanied by top BAMIN officials to install the new regional agent. The general manager told the local press that this recovery is more noticeable in tin, antimony, and wolfram because the prices are better. Concerning the difficulties that BAMIN faces in marketing gold, he said that the existing open market led to gold smuggling, hindering its purchase. However, he stated that the government is granting fresh money for the purchase of gold, thus attracting a greater percentage of national production. He revealed that there are some mining credits from the CAF [Andean Development Corporation] and the IDB. These credits are for properly drawn up mining projects. The CAF will provide \$12 million exclusively to BAMIN. Another \$15 million will come from the IDB. He explained that these resources can be used by mining industrialists, preferably in Oruro in order to revitalize its mining and economy. He stated: "Those involved will announce the projects to channel the credits." Returning to mining recovery, he said that its revitalization was noted some time ago "although not at the anticipated rates. There will be a complete recovery in the medium term" because the stocks of minerals, mainly tin, have dropped at the international level. [Text] [La Paz PRESENCIA in Spanish 12 Mar 87 p 5] 7717

1986 MINING EXPORTS--Exports of minerals, traditionally the major source of foreign currency for Bolivia, have slowly decreased in the last 2 years. In 1986, they only represented 21.7 percent of the total value of exports. These data are contained in a chart prepared by UNITAS [National Union of Institutions for Social Work], PAM [Mining Advice Program], and CRSS [Catholic Relief Services] based on reports from the National Institute of Statistics, Central Bank of Bolivia, and Muller & Machicado Associates. They show that the total value of Bolivian exports in 1986 was \$504,314,000. Mining exports totaled \$109,749,000, equivalent to 21.7 percent. Hydrocarbon exports were \$33,196,000, equivalent to 6.1 percent, and exports of other nontraditional sectors were worth \$61,369,000, equivalent to 42 percent. The chart is part of a study sponsored by UNITAS entitled "The crisis of the mining sector and its socioeconomic effects." The analysis studies the situation of Bolivia and the effect of mining and mentions the factors that caused the mining crisis in our country. It stated: "The greatest destruction of the mining sector came after the promulgation of the liberalizing economic decrees consummated in

October 1985 by the debacle of the international tin market." As an example of the mining crisis, the study said: "Now the mining sector's contribution to the GDP has dropped noticeably. It is no longer a sector that generates productive employment and its large contribution to the treasury has decreased, weakening its ability to generate foreign currency and ceding its influence on export dynamics to the hydrocarbons sector in 1983. That weakening of the economic importance of the mining sector carried with it a weakening of its political and union importance." PAM and CRSS felt that "the economic policy decisions of the government reinforced by the recent collapse of the tin market have permitted profound deterioration of the social variables of the people tied to this activity. These effects are known but there are no precise figures yet to guide the fight and demand of the workers." [Text] [La Paz PRESENCIA in Spanish 4 Apr 87 p 7] 7717

MINERS' BANK 1986 EXPORTS--In a report, BAMIN said that during the 1986 fiscal year "it sold more than 4,000 metric tons of refined tin--4,039,293 tons--to buyers on the international market for which it received \$13,793,185." It said that this "makes BAMIN the second largest tin exporter after COMIBOL [Mining Corporation of Bolivia] which in the same fiscal year sold 4,232 metric tons of refined tin." The BAMIN document said that it marketed 2,245,614 metric tons of antimony in 1986 for which it obtained \$3,555,378. BAMIN also sold 449,923 metric tons of wolfram worth \$1,665,026 on the foreign market in 1986. The report said that small mining which regularly delivers its production to BAMIN has become the main source of antimony and wolfram. The president of BAMIN, Luis Penaloza Cordero, said that small mining and cooperative mining "have worked without any mishaps in 1986 and without losses despite the low prices of the minerals on the international market. That important sector now absorbs estimated manpower of more than 20,000 people. Their work was done in 1986 without creating social problems for the government and within a framework of absolute normality." Luis Penaloza said that BAMIN "has loaned and continues lending technical and economic assistance so that small mining activities are not paralyzed but, on the contrary, can expand to create new job sources." [Text] [La Paz PRESENCIA in Spanish 4 Apr 87 pp 1, 6] 7717

CSO: 3348/263

TRADE TALKS WITH USSR; CVRD SIGNS CONTRACT

Soviet Official Comments

Sao Paulo GAZETA MERCANTIL in Portuguese 25 Mar 87 p 3

[Text] An agreement between Brazil and the Soviet Union regarding the supply of machinery and equipment by the USSR and the provision of Brazilian goods, dating back to 1963 and often renewed, was recalled by the head of the Soviet trade mission, Vladislav Kurenkov, in an interview granted to this newspaper.

Based on the agreement, the Soviet Union has granted Brazilian public or private purchasers term payments for a period of up to 10 years, 4.5 percent annual interest for contracts with government bodies or state organizations, and 5 percent annual interest for contracts with private firms. To guarantee the payment, the Soviets require collateral security from the Bank of Brazil 60 days after the signing of the contract. The Soviet foreign trade organizations, for their part, promise to use the funds accrued from sales of machinery and equipment for the purchase of Brazilian goods, on normal commercial terms, including 30 percent manufactured and semi-manufactured items.

The recollection of the agreement which, according to Kurenkov, is being under-utilized because of disinformation, "is a demonstration of the understanding of Brazil's critical situation, which is added to the also serious situation of the Soviet Union, both countries with foreign exchange influence," remarked the trade representative; explaining that, for this reason, solutions for commercial exchanges are being sought. In this connection, a joint commission has been working, and is scheduled to meet in Moscow at the end of September.

The trade between Brazil and the Soviet Union has been declining in recent years. According to Kurenkov, there was a 30 percent reduction from 1985 to 1986. Traditionally, Brazil imports petroleum, chemical products, fertilizers, and equipment, among other things, from the USSR. On the other hand, it sells cacao, sugar, instant coffee, steel products, vegetable oil, and other raw materials to the Soviets. In 1986, the total Brazilian imports amounted to \$398.3 million, and the exports, \$353.5 million.

However, the Soviets are interested in expanding that commercial spectrum, by purchasing from Brazil.

Ferroalloys Industry Planned

Sao Paulo GAZETA MERCANTIL in Portuguese 26 Mar 87 p 22

[Text] For the first time, through state metal, and iron and steel companies, the Soviet Union is giving Brazil a loan of \$50 million, and will exchange raw materials (75,000 tons of ferroalloys) for long-term financing of equipment to set up, in Maranhao, Provale, the largest company producing ferroalloys based on manganese, which will produce 150,000 tons per year.

Eduardo Seabra, president of Prometal, Inc, announced that the Vale do Rio Doce Company (CVRD) and his company signed a protocol in Rio yesterday which will make the project possible, formalizing the creation of Provale (the new firm's provisional name), which will be controlled 60 percent by Prometal and the remaining 40 percent by Vale do Rio Doce. For a 12-year period, the plant will supply the USSR with ferroalloys made from five different types of ferro-manganese.

According to Seabra, in this way Provale will have a captive market. This is the USSR's first commercial venture in the Brazilian mineral and metallurgical sector. Prometal and CVRD are awaiting the arrival of a Soviet mission during the first 2 weeks of April to ratify the agreement on exports and the submission of the protocols on financing. According to the CVRD president Raymundo Mascarenhas, \$100 million will be invested in the project starting in 1988, with \$50 million coming from a loan to be provided by the Narodniy Bank (USSR state bank) at 6 percent annual interest. Mascarenhas stressed that the creation of the new plant is important for several reasons: It lends continuity to the policy of association with national private companies for contributions of technology and the gaining of new markets, through CVRD's international experience; it creates 1,500 jobs in the Carajas region; and it opens up a promising market for semi-finished products, that of Eastern Europe. According to Deoclecio Rodrigues, a CVRD director and mentor for the project, the technology to be used for the production of ferroalloys in Carajas is the most modern, from the standpoint of cost reduction, and is totally anti-polluting in nature. Rodrigues also announced that the other portion of the production (75,000 tons) will be marketed by the Prometal group on other markets.

Russians

During the first 2 weeks of April, the Soviet mission will arrive in Rio and also carry out a timetable of visits to Sao Paulo, Bahia, Brasilia, and the Carajas mountain area. It will include technicians from the Ministries of Heavy Industry, Iron and Steel, and Metals. According to Eduardo Seabra, the Soviets will ratify the creation of Provale and implement the financing protocol in the amount of \$50 million, as well as signing the contract for the purchase of 75,000 tons of ferroalloys, which should generate a billing of \$70 million per year for CVRD and Prometal.

Although the USSR is the largest producer of manganese and manganese ferroalloys worldwide, according to a source from the mineral sector, the imports of the product from Brazil are part of "a new Soviet strategy for marketing with the country, trading raw materials for investments in equipment for ore purification; because the USSR Constitution does not allow the establishment of joint ventures."

The Plant

Eduardo Seabra said that construction should begin on the new Provale plant during the first quarter of 1988 and, should be completed by the last quarter of 1989, with shipments of ferroalloys made through the port of Rio Madeira, in Sao Luis, Maranhao.

The plant will have 30,000 hectares of land for reforestation and charcoal; and will consume manganese ore from CVRD's Igarape Azul project located in Carajas, the reserves of which have been estimated at 65 million tons of ore.

Ferromanganese

At present, Brazil is one of the largest world producers of manganese ferroalloys, achieving a production this year of 330,000 tons, which are marketed at \$330 per ton FOB; and 80 percent of the production is currently sent to the domestic market.

Braspetro-USSR Negotiations Set

Sao Paulo GAZETA MERCANTIL in Portuguese 25 Mar 87 p 20

[Text] Braspetro [PETROBRAS International, Inc] directors will open negotiations with representatives of the Soviet Union in Brazil for the purpose of analyzing countries in which they would be able to carry out joint oil activities. This is the first concrete result of the negotiations initiated nearly a year ago by Braspetro with the Soviet Union, through Itamaraty.

Braspetro, a subsidiary of PETROBRAS [Brazilian Petroleum Corporation], operates alone and in association with companies of other countries, in the exploration and production of oil and gas. It recently also joined Elf Aquitaine of France and Statoll of Norway to participate in the 10th bidding for exploration on the British side of the North Sea. The results are due to be disclosed in June.

In October of last year, it made a bid to investigate the North Sea, at water strata (the distance from the surface to the bottom of the sea) of from 250 to 400 meters.

At the end of this month, the Norwegian Parliament will announce the winners' names. Braspetro entered this 11th bidding opened by Norway alone, but that country's government will be one of its partners, as well as companies from other countries.

The talks between the Braspetro directors and the Soviets will be aimed at doing exploratory work in countries which are politically and economically attuned to the Soviet Union. Last week, a year after Braspetro had expressed an interest in operating with the Russians, it was contacted for the first talks.

Libya

However, Braspetro's experience has not been applied solely to the oil industry area. Within 2 or 3 months, the company will begin digging water wells in the Libyan desert, in the region known as Tarir Tazerdo.

The Braspetro project in Libya calls for the drilling of 400 wells, which will bring it \$80 million. These wells will be 500 meters deep, more shallow than those drilled in search of oil and gas, which range from 500 to 4,000 meters deep. Braspetro has also already purchased the equipment necessary for that drilling.

2909

CSO: 3342/109

PRIVATE FIRMS' PARTICIPATION IN SATELLITE PROGRAM DISCUSSED

Sao Paulo GAZETA MERCANTIL (special supplement) in Portuguese 27 Mar 87 p 5

[Text] The national industry's participation in the construction of the Brazilian satellites, scheduled to be launched between the end of this decade and the beginning of the next, has started to materialize in the Brazilian Complete Space Mission (MECB).

This is a program the main goal of which is to put four satellites in orbit: two for data collection and two for remote sensing; to be constructed by the Institute of Space Research (INPE) at Sao Jose dos Campos (Sao Paulo). The development of the booster rocket will be incumbent on the Aerospace Technical Center (CTA), in the same city.

Already operating in the INPE area as suppliers of MECB are companies such as EMBRAER [Brazilian Aeronautics Company] and Bernardini, of Sao Paulo; while others, such as Hydrology Engineering and Qalab Electromagnetic Protection, both of Rio de Janeiro, have signed contracts with the agency for transfer of technology, resulting from activities associated with the space program.

According to Marco Antonio Raupp, a 48-year old mathematician promoted to the position of INPE director in April 1985, starting with the next phase of the program (the construction of the remote sensing satellites), a virtually complete involvement of the industry has been planned. "By then, INPE will already have mastered the technologies necessary for the program's development; and then the manufacturing process can be turned over to the companies." At that time, the agency would only deal with the tasks involving specification and integration of the systems.

Transfer

He stressed that the structure for the first satellite to be built, the data collecting one, to be launched about February 1989, is being assembled by EMBRAER. It involves a beehive type panel (consisting of hexagonal plates), which uses an aluminum alloy that is simultaneously light and sturdy. That framework will support an assembly consisting of antennas and various electronic components, and must be capable of withstanding the acceleration of the booster rocket until the satellite's entry into orbit.

Paulo Tromboni de Souza Nascimento, INPE's manager of technological dissemination and industrial policy, explains that the Bernardini firm will be responsible for the work to manufacture the spool coil and the nutation shock absorbers, which are part of the system that keeps the satellite stabilized in space, diminishing movements that could dislocate it from its proper position.

INPE is also now transferring to the national companies technologies developed on the basis of MECB. Souza Nascimento relates that, this month, a contract was signed with Qalab, of Rio de Janeiro, which will train the firm to manufacture an armored chamber, part of a protective assembly against electromagnetic interference, built at the institute to make tests on satellite equipment and systems.

Automatic Systems

The armored chamber (which is a modular room with metal walls) requires a construction and assembly technology unprecedented in the country to date, reveals Benjamim Correa Galvao, from the integration and test department. It is possible to test in it, for example, computers, and laboratories for calibrating electrical magnitudes and sophisticated hospital equipment, which cannot undergo electromagnetic interference without detriment to their performance.

Another development in the transfer of technology phase relates to the data collection platforms (DCP) of the Argos and Goes type, which the agency built based on its participation since the 1970's in activities associated with the reception of data from atmospheric satellites.

These are small automatic stations provided with sensors such as those for pressure, temperature, and humidity, whose parameters are sent to the satellites and from there retransmitted to the INPE receiver station, set up in Cachoeira Paulista (Sao Paulo).

The process for the manufacture of the Argos/DCP (for low-altitude satellites), which are of particular interest to firms that are electricity concession-holders, is being turned over to the Hydrology Engineering firm in Rio, which will most likely begin their construction this year.

According to Souza Nascimento, out of a total of 124 projects under development at INPE, which have been analyzed by its management, 38 were considered promising from the standpoint of transfer of technology. Included among them is the one for infravoltaic detectors for infrared, with applications in quality control of industrial processes and also in the medical field, as a diagnostic aid; as well as a process for the preparation of anhydrous hydrazine, to be used in the plastics industry.

Included among the projects identified as capable of training suppliers for MECB is that for solar cells with spatial qualifications, and also that for a digital sensor, a device which measures the satellite's position in relation to the sun, and aids in the determination of its attitude.

2909

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AVIBRAS SUBSIDIARIES' PARTICIPATION IN MISSILE PROJECTS VIEWED

Sao Paulo GAZETA MERCANTIL (special supplement) in Portuguese 27 Mar 87 p 5

[Text] New, large-sized special vehicles for handling cargo, new long-range military missiles, and a likely venture into the computer field are some of the current projects being developed by the companies of the Avibras group, founded 26 years ago in Sao Jose dos Campos (Sao Paulo). Specializing in the armament field, the group expects to bill about \$261 million this year, 26.6 percent more than in 1986.

Pedro Angel Vial, aged 35, the group's official spokesman and director of one of its subsidiaries, Tectran Enginnering, Industry, and Commerce, Inc, reports: "We are developing a new family of surface-to-surface missiles, with a range of 300 kilometers, the SS-300, as well as surface-to-underwater, or underwater-to-underwater missiles, the Barracuda."

Those projects, initiated nearly 3 years ago, have already brought some concrete results in the components field. According to the executive, one of the group's minority associates, Avibras has already succeeded in developing a flight control inertial system for long-range missiles, identified by the initials SIS.

Vial explains: "This is a system for our own use that we are now also negotiating with friendly countries." The SIS, based on an assembly of "several gyroscopes," ensures that the missile will maintain the planned route, providing its internal computer, without interruption, the magnetic north location in relation to the missile's position.

Several Clients

The combination of that information with two other constant data, one vertical and the other horizontal, prevents the missile from deviating from the target; also allowing for changes in the route when necessary. He adds: "This system guides the missile during the sustainer flight, before its on board radar detects the target. Thereafter, the flight is guided by radar."

The SS-300 missile will be nearly 10 meters long by 1 meter in diameter; and can carry a warhead with almost 1 ton of explosives. It is expected that the missile will be able to operate in 1990.

In the case of the Barracuda, it is Avibras' intention to achieve a missile with a performance similar to that of the French Exocet, famous for its use in the Falklands War. Without giving any further details in this regard, Vial reports that the two families of missiles are being negotiated "with several clients," in addition to the Brazilian Navy and Army.

Vial comments: "In the near future, we intend to use our experience in military electronics and computers to develop civilian applications. This would be done through a new subsidiary, which has a great chance of being created." He ends, laconically, by saying: "One of our priorities is growth in that field."

Tectran, a company directed by Vial, was founded in 1982 especially to manufacture missile launchers of the Astros line, developed by Avibras Aerospace, Inc (the mother company) since 1981. This year, the group's expectation is that Tectran will bill nearly \$20 million compared with \$4 million in 1986.

Without Idleness

The executive explains: "In both instances, 90 percent of that billing is due to the Astros line," noting that Tectran's production capacity has already been "virtually taken up" for the present fiscal year. The remaining 10 percent relates to its civilian vehicles line, the first model of which (a self-propelled crane carriage on tires) was introduced in mid-1983.

According to the company's director, it is expected to expand further still the range of the firm's products, also including a "locotractor" for hauling railroad cars, a tractor with an elevator platform for pallets, and a jointed tractor for transporting iron and steel crucibles.

Tectran is Avibras' oldest subsidiary, and the one with the largest billing. In 1983, the company purchased control of another firm, Tectronic, now Powertronic, a manufacturer of trolley buses and electronic equipment. Its anticipated billing for this year is \$9 million, compared with \$1 million last year.

In 1986, the group created another affiliate: Usiforja, intended to render tooling and shaping services for the aerospace and automotive industries. Vial notes: "The idea (of the group) is to expand the markets already won, and to gain others. The idea is to make the subsidiaries carry out their respective missions independently of the Avibras purchases."

At present, Avibras Aerospace is by far the group's largest company, with billing of about \$200 million last year, 90 percent originating from sales on the foreign market.

2909
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MOLINA DISCUSSES FREE ELECTIONS

Santiago HOY in Spanish 23-29 Mar 87 pp 11-12

[Interview with Sergio Molina Silva by Odette Magnet; date and place not indicated; first five paragraphs are introduction]

[Text] He is a "fence-mender." Showing patience and perseverance, he has specialized, often unsuccessfully, in reconciling positions, in bringing political leaders of one faction closer to another. He has mediated and negotiated on occasions when reconciliation and understanding seemed no more than a shared desire.

The name Sergio Molina Silva (58, an economist, married, three daughters and three grandchildren) is accepted by wideranging opposition circles without too much turning up of their noses. And in the government, at least he can walk through the gardens around La Moneda. He is, in short, a "white" figure. But not a neutral one. He himself clarifies that "white is a color, the sum total of all colors."

In July 1985 he had to bring all of his talents to bear as one of the framers of the National Accord. And in spite of the tough times that the National Accord has had throughout its short life, Molina, its coordinator, contends that "its language and objectives are still present and valid."

On Friday the 13th at the convocation, however, he underscored "a national task": the campaign for free elections (Hoy No 504). Sergio Molina represents the 14-person council that issued the appeal. Reluctant to go into detail on the problems that have arisen along the new path, Molina admitted to HOY that "there were difficulties of various kinds."

But as he himself acknowledges, he is "stubbornly optimistic." He clarifies that his optimism has a solid basis, what he calls "a deep conviction": "I firmly believe that the great majority of Chileans want a way out of this situation so that they can later have a peaceful, orderly coexistence. For this to happen, the country needs to be certain that the next government will be legitimately elected from among different choices and that whoever wins will have done so in free, clean and irreproachable elections. This is what the country needs."

[Question] That is an aspiration. Do you really think that free elections can ever be held?

[Answer] It is an aspiration that requires specific actions, which are not difficult. Democratic elections are known throughout the world; we ourselves held them for many years of our history. We are familiar with them, and there is no reason why we cannot bring them back. This is the feeling of the majority. I couldn't prove it right now, but polls have come out indicating that 80 percent of the people are in favor of free elections. The Chilean people want to exercise their sovereignty and to decide which government they will have during the forthcoming period of democracy.

[Question] Admiral Merino has said that there will be a plebiscite and that there is no time to amend the constitution.

[Answer] The government says that it is sticking by its policy of a plebiscite. But it is sticking by it alone. This is not a problem of opposition and government; it touches all Chileans. But the government is also in a position to hasten the process and, if it wanted, to take all of the administrative steps to do so. This could carry a certain cost, but if we weigh the economic costs of streamlining the registration against the benefits of the country really speaking with a sovereign voice, there can be no mistake about it. The advantages lie so heavily with the latter that any cost is fully justified.

[Question] General Pinochet has reiterated that the path towards [democratic] institutions has been charted. What makes you think that he will stray from that path?

[Answer] It is true that he has underscored that. But people who still think that they can come to terms in this country must never give up things that are so reasonable. It is not a question here of antagonizing but of reaching the total conviction that this is best for Chile and, on that basis, to proceed. The regime has before it the proposal to amend the constitution, but I wouldn't pose it as a challenge. I have no reason to believe that they will not do what is best for Chile. The government cannot continue to ignore the evidence that the great majority of people want to take part in a forum of public expression. This is the force of reason. And we thus all have a duty to speak out.

[Question] Could this initiative be viewed as a vehicle for hammering out political accords?

[Answer] No, but there is broad political agreement on the single, common goal.

[Question] Because some are pinning their hopes for opposition unity on this appeal.

[Answer] I wouldn't even say opposition unity, but rather a unity that goes far beyond the opposition. There are independents as well, and others who have been close to the government.

[Question] Could this be viewed as "common ground" for the opposition and its plans for future mobilization?

[Answer] There is common ground for a very broad segment of the population. The purpose of the appeal is to convince the Chilean people, as well as the government authorities who are responsible for legislation, that this is for the country's good. The appeal seeks to mobilize public opinion in this direction. It is not the intention of the people making the appeal to encroach on areas that are not properly theirs or to propose the sort of social mobilization that the country has known in the past.

[Question] The appeal also calls for great confidence in the opposition, at a time when criticism of opposition political leaders is not limited to the government. There is talk of a confused and divided opposition.

[Answer] That's true...Efforts have been made at different times. And we are still in the thick of attempts by various leaders to come to terms and establish a foundation for Chile's future governability, which seems fundamental to me. The country must visualize alternatives, and that is a responsibility of political leaders. This is a difficult process of evolution; there is a great deal of political fragmentation that thwarts common action.

[Question] Is everyone there who is supposed to be? Why is there no Communist Party leader among the organizers of the appeal?

[Answer] We did not invite any parties, and I have not talked with leaders of the Communist Party. Now then, one can always find shortcomings in an initiative. But without detracting from the importance of the people involved, the most significant thing is the sense of the appeal, which does not make exclusions. The unifying element is the conviction that this is a public service effort for the country, without partisan banners. No one is involved in it out of personal or partisan interest, although naturally some people think otherwise.

[Question] Don't you think that it is somewhat naive to assume that each party will not try to reap dividends for itself?

[Answer] I think that will inevitably happen. I am not so naive as to believe that there will be no partisan intentions. The parties have complete independence and can express their differing views. If they organize and are active pursuant to the appeal, they will try to make their own mark on it. But we do want their actions to abide by the framework of the appeal as closely as possible.

[Question] Does this commitment entail any agreement on the advisability of registering to vote?

[Answer] Yes, we believe that Chileans ought to register. Because if we think that a campaign like this can be successful, we have to be prepared to exercise our rights. Perhaps afterwards we will conclude that there are

really no guarantees of a free election, and the right will not be exercised. For now we should get ready so that the people can express their sovereignty, hopefully with guarantees of clean, open elections.

[Question] If the elections are not free, will the campaign have failed?

[Answer] If they are not, it will have failed. But we must still make the attempt and exhaust every avenue to achieve success.

[Question] In what way will you exhaust every avenue to achieve the understanding to which the appeal refers? Can we assume that you will give General Pinochet the appeal document?

[Answer] The truth is that I cannot predict how far the process will go. I can say that we are prepared to exhaust every appropriate avenue to bring this effort to peaceful fruition. Exhausting every avenue means talking with as many people as possible who are influential either with the public or with government authorities.

[Question] Can this campaign convince someone who is not already convinced?

[Answer] Yes. At the moment there is a great deal of ignorance about the solutions that the constitution provides, what their effects will be and why different solutions could be better. There are many people who want to emerge from this peacefully, who reject violence and who want to seek ways to avoid violence.

8743

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AVANZADA NACIONAL ANNOUNCES STRATEGY

Santiago QUE PASA in Spanish 2-8 Apr 87 pp 8-9

[Text] Avanzada Nacional is being reborn. The movement that has prompted more than one controversy has a new face today but pursues the same goal that its members set almost 4 years ago when it emerged: to support Pinochet. Its political life began on San Cristobal Hill to mark the 10th anniversary of the military regime. Since then it has been the only group that has backed the president unconditionally. Its members are the ones who bring in shantytown residents to all of the significant rallies for the chief executive, such as the March on 9 September 1986. They are the ones who define themselves as nationalists, although in practice they support the man who has given his OK to a free-market economy...

Avanzada is being reborn. It has initiated a new strategy. It announced that it would register as a political party, and in a political vote approved by its youth, it nominated Pinochet for president in 1989. The new offensive includes the incorporation of people who headed up the now dissolved National Action Movement (MAN). Among other things, Avanzada Nacional was a group without a top echelon. Now it wants to develop one.

Its members are also aware that the movement has image problems. Changing that image is part of the new approach.

Its leitmotiv is obvious. Influence the commanders in chief of the Armed Forces and law enforcement agencies to nominate Pinochet in the plebiscite. There is no mistake about it. They want to become the protagonists in the 1989 campaign. The problem is that it is not all that clear, not even to them, that the government, and especially Pinochet, feels that launching such a campaign is the best thing right now...A question of strategy. In any event, the young people in the "new" Avanzada indicated that they would ask to meet with the president to explain their motives to him.

The New Faces. Avanzada Nacional's new face began to take shape late last year. It took some doing to convince the nationalists in this country, who used to be active in MAN, that the only chance to defend their principles was to join in...Carlos Cruz Coke, the well-known attorney who defended Lt Pedro Fernandez in the "case of the burnt bodies," Benjamin Matte, Gaston Acuna Maclean and Gustavo Cuevas Farren did so. Things began to change from that

point on. There have been others, such as the former director of National Television, Manfredo Mayol, and yet more names will be revealed in a few more weeks. They are all staunch partisans of the chief executive, needless to say.

They believe that the chief of state, in spite of what has happened during these years in economic policy, will ultimately adhere to nationalist principles. For better or worse they are the only ones, they say, who have remained unconditionally loyal to Pinochet. And of course the president likes that.

There is also the question of timing. Many see this new offensive by Avanzada Nacional as a reaction to the emergence of National Renewal, the party on Chile's Center-Right that will try to influence 1989 decisions and that reportedly does not exactly have Pinochet in mind as its candidate.

What is Avanzada after? Support for Pinochet in 1988. Enable him to win the plebiscite and thus be in a position to form a "nationalist" government for the 1989-1997 period. The sort of government that was not formed during this period. That is what they are working for, they say.

Not everyone believes them, of course. Pablo Rodriguez, one of the leading representatives of nationalist ideas and to many a corporativist, was invited to join ranks with Avanzada for this purpose. But Rodriguez declined. He is said to be in a period of political silence, so that he does not have to criticize the regime only over a matter of loyalty to Pinochet. But when they proposed that he join Avanzada, he set conditions: that it be dissolved and that a real nationalist movement be formed right away. He did not join, naturally.

In contrast, Willoughby, another nationalist, was not even asked to join. The former MAN people want nothing to do with their ex-colleague.

A Question of Image. And now the former MAN members are trying to refurbish Avanzada's image. A far from easy task. Everyone knows that this movement was born under the wing of the CNI [National Information Center] and that it worked with and was financed through its men for a long time. This was "an understandable question of logistics at a given moment," we were told by one of the leaders who joined during the latest "rash." Now, they say, the link has to be severed. The many "front" organizations that it was known to have must be eliminated. It has to be turned into an "honest to goodness" political party. Avanzada's new leaders do not deny that there are other images to be "cleaned up" as well. There have been, they say, financial problems; there is even talk of swindles, "shady deals," defrauding shantytown residents, several examples of exploitation by certain leaders...

There was a little bit of everything during the early days of this movement. Those were the days of loyalists Elena Fornes (from the Political Commission and the director of CORPAZ) and Patricio Vildosola. The days of the cliques, the struggles to the death in the universities, where some members of Avanzada formed shock groups to fight with linchacos on the former Macul campus.

Those were the days when Pinochet attended the support rallies that were organized in various spots, like the "tortugazo" in Talcahuano. The days when the president told them that they had to spread like an oil slick...

But the president was reportedly not always behind them. He became annoyed more than once. QUE PASA was even told that last year the chief executive allegedly said that the movement was dying...but it did not die. Then came the attack [on Pinochet's life], and the organizational support that Avanzada provided for the march on the 9th sat well with some. "Avanzada Nacional brought in a lot of people; it even surpassed the expectations of some mayors," we were told on the inside. What did not go over well was the fact that they got practically no votes when they ran in the University of Chile elections last year...Avanzada has also gone through good and bad times in financial support.

But they have remained faithful. And this is perhaps their biggest asset. Perhaps this is why now that the UDI [Independent Democratic Union] has "gone on board" with National Renewal, Avanzada is thought to be getting its big chance: the chance for Pinochet's hard-core supporters, the ones who stayed with him through thick and thin. We will have to see.

In the Government. Avanzada is said to have its small "stronghold," in other words, enthusiastic support, in the Interior Ministry. Not Minister Garcia, of course, but Undersecretary Alberto Cardemil and attorneys Jose Antonio Cousino and Jaime Pereira. It also reportedly has the "blessing" of the head of the Justice cabinet. We are talking about Gen Humberto Gordon, who is a key man, according to them, as far as support is concerned.

Of course not everyone in the government wants to clear the way for this rebirth of Avanzada. Debate is certainly going on because it also has its detractors. The minister secretary general of government, Francisco Cuadra, is said to be one, for example. And mentioned among those who like the movement the least is the director of civilian organizations, Colonel Nunez. But the Avanzada members defend themselves. They say that Nunez has sought to take after Carlos Krumm, who did a fine job and who is now in Uruguay, but has been unable to...So, they allege, he is blaming Avanzada. It was Nunez, it is commented, who "took advantage" of the resounding failure that Avanzada's "boys" met with last year in the university elections, to prejudice Pinochet against them...

At first, QUE PASA was told, the entire Center-Right was supposed to run as a bloc in those elections, including Avanzada Nacional. Something happened on the way, and the Avanzada youth formed a separate group and began to conduct their own campaign. Two days before the elections they received orders to withdraw so as not to divide up the rightwing vote. They did not, and as a result, it is said, their money was cut off. Pinochet was reportedly angered by their failure.

What Will They Do. And how does support from the government stand now? "On hold, contingent on our capacity to organize," one leader told us...And he remarked that they are going to begin a self-financing campaign.

The first step in Avanzada Nacional's new strategy will be to register as a political party, with a new provisional board of directors (in which there will of course be political figures), subject to ratification at a subsequent national congress. The board could be headed by Benjamin Matte, who was the first MAN member to join Avanzada late last year. The idea is to register the party in a historic spot: Iquique. For two reasons: one quantitative (they have the most people there, they say) and the other historic and patriotic. It was in this roadstead that Arturo Prat fell in combat, and it was this region that was conquered at sword point in the war of 1879. A source of pride to the Chilean military.

"It would be absurd to try and wage our battle in the universities; our efforts must be aimed mainly at the shantytowns," someone indicated. They acknowledge that they are "entering" this area by making use, in a way, of the structure of the municipalities, where they have something of a "claque." Avanzada leader Jose Ramon Molina, who was active in MAPU in his youth, stated publicly some time ago that as a political movement it had 60 mayors all over the country and 10 in Santiago...It has been commented that one of the people working all-out for the movement in the southern part of the country is Eduardo Diaz, a former member of Patria y Libertad and the man of Viento Sur.

For the time being, Avanzada is organized around five national directors (Elena Fornes, Patricio Vildosola, Jose Ramon Molina, Hugo Torres and Jaime Morere) and has a youth coordinator, Patricio Hidalgo, and a union coordinator, Claudio Orrego. There is also a national council, chaired by Benjamin Matte, as well as regional boards of directors. It also has a headquarters, located on Garcia Reyes and Alameda, a symbol, an oath and even an anthem, which Willy Bascunan composed. Other artists belong to the movement as well: Pedro Messone, Horacio Saavedra, Sergio Lillo, Monica de Calixto, Fernando Larrain (the magician), Luis Dimas and Checho Hirane.

They are saying that now begins the "second leg" for Avanzada. Its rebirth. What is not clear to everyone is whether it is doing Pinochet a favor...or not, because it stands at one extreme of the national political spectrum.

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OSCAR GODOY SUGGESTS RIGHT'S ROLE IN TRANSITION

Santiago APSI in Spanish 23 Mar-5 Apr 87 pp 17-18

[Interview with Oscar Godoy, director of the Political Sciences Institute of the Universidad Catolica, by Nibaldo Fabrizio Mosciatti; date and place not indicated]

[Text] [Question] How do you define yourself politically vis-a-vis the current government?

[Answer] As someone who is very independent, who praises some of its specific accomplishments, such as some of the modernizations, and who categorically rejects its major defects and errors.

[Question] Which ones?

[Answer] In two basic areas: human rights, which to me is the regime's black spot, and the pursuit of free-market economic policies, where I see more defects than errors.

[Question] By and large your description of yourself is very similar to Mr Rivadeneira's description of himself in his recent statements...

[Answer] Yes, by and large. I liked 80 percent of EL MERCURIO's interview with Rivadeneira.

[Question] Which 20 percent didn't you like?

[Answer] The 20 percent refers more to his failure to more clearly define National Renewal's stand on the military regime.

[Question] Its stand in what sense?

[Answer] Instead of putting forth theoretical aspirations, I think that National Renewal (RN) ought to clearly spell out what conditions are strictly and absolutely necessary for a real transition. To this end, for now it ought to state quite clearly that a transition is not possible with Pinochet...as president during the new period. I think that RN ought to veto the figure of the president because the future of democracy is indissolubly linked, in my

judgment, to an individual who possesses characteristics other than General Pinochet's.

[Question] You have always spoken of the need for a renewed Right to emerge. Do you think that RN could be that Right?

[Answer] I would rather reserve judgment on that. I think that it is still too early to say.

[Question] What would help dispel your doubts.

[Answer] I think that a renewal of the Right has two or three sources that I find important. One is intellectual. I think that a new rightist philosophy is needed; it has to be fundamentally critical and, consequently, not keep on parroting ideas that have been handed down by tradition. Second, I think that the Right must quickly convert to and support the ideals of broadening democracy, in other words, not just move towards a "protected" democracy, but offer the country an agenda for broadening democracy that rests on very liberal foundations. Third, the Right should revamp its political style and proceed directly to the formation of a party of the masses, as exists today in France, for example.

[Question] In your judgment, is the National Party (PN) closer to this?

[Answer] I think that a renewal is not predicated on being independent, as the RN wishes to be, or on being in the opposition, as the PN wants. I think that it is predicated on other factors. Consequently, I would also withhold judgment...

[Question] If we think about some of the RN's leaders, Jarpa for example, do you think that this party represents the Right of which you speak?

[Answer] I honestly think that when movements that emerge from society and represent the masses are created, the importance of leaders wanes. If the Right really succeeds in creating a party with the above characteristics, many of the people who today may represent ideas that in my judgment are not viable, mainly because they are obsolete, are not going to have a place.

[Question] We gather that there are people in the RN who are proposing ideas that, in your judgment, are not viable...

[Answer] I think so.

[Question] What ideas?

[Answer] I think that the emphasis on a protective authoritarianism in an overly disciplined society is not in keeping with modern liberalism; thus it is obsolete and not viable if we want to place our country on the road to the future.

[Question] From this standpoint, could two Rights take shape in Chile?

[Answer] Possibly. I hope not. In fact, in some countries in which the Right has gained ground, it comprises these two movements, the liberals and the conservatives, who balance each other out.

[Question] In your judgment, what should the job of the Right be in Chile?

[Answer] In view of the historical juncture and given its proximity to and affinity with certain facets of the regime, it has a very important role. I think that it can convince the people who can make political decisions that the transition ought to be genuine and truly democratic. In this regard, many of Rivadeneira's proposals are in this direction. I don't know how they can be implemented, but owing to its affinity with the government the Right could represent the bridge in the transition. Because I think that there are two transitions, one from the authoritarian regime to democracy as set forth in the 1980 Constitution, including the dismantling of all the mechanisms of the military regime, and the other from the 1980 Constitution to a more perfect democracy. The Right has a fundamental role in the first transition.

[Question] There are people on the Right who are afraid of becoming the heirs of the regime...

[Answer] It seems to me, for example, that in the transition in Spain the Right had an important role, and I think that by playing it it won a spot for itself in a legitimate democracy. If, on the contrary, the Chilean Right insists on retaining the current model of the regime or on not exercising a sort of veto so that someone other than Pinochet is in charge of the next government, then it will be mortgaging the regime's future.

[Question] And do you agree with Rivadeneira when he says that the transition should be without the communists.

[Answer] I would say the following: that the transition carries a price, in the sense that one cannot achieve everything that one would like all at once. I think that the complexes that weigh heavily on Chilean society because of the experience of President Allende's government could force us to pay a price of conducting the transition without the Communist Party (PC). I think of this as a cost, not as an ideal. This applies to what I call the first transition, because I have always said that the PC cannot be excluded from the democratic system. I don't care for ideological exclusions. Moreover, I think that they don't work. Pragmatically speaking, though, it is probably best to exclude the PC from the transition.

[Question] It doesn't require much thought to imagine what a communist would say to this: "We have paid the price for 13 years, with dead bodies, and now you want to make us keep on paying..."

[Answer] The long-range view is very important to me. I think that the Spanish Left paid a very heavy price under Franco. But I also think that the Right is paying a price today and for who knows how long.

[Question] You said in 1985 that one of the biggest difficulties for the transition is that the deadlines were drawing near. Admiral Merino implied

the other day that they had already run out, when he said that there was no longer time to amend the constitution...

[Answer] To the regime it is always too early or too late. I think that the reason is that it applies a strategy of short-run tactics to politics. What I thought at the time was that the transition was not a timetable but a process that meant bringing all political representatives together, without any exclusions, to set democracy in motion, which was supposed to begin when the 1980 Constitution took effect. This meant dialogue, accords, between the opposition and the government. What happened? The transition is going to be postponed, because once again we are approaching the deadlines, because the social process, without exclusions, has dragged on. When will democracy begin now? Well, I suppose in 1989.

[Question] Are you also reserving judgment on this?

[Answer] Yes, I reserve judgment, because the procedures that the temporary provisions of the constitution make available to the country are potentially very dangerous. The answer is to amend the constitution and hold competitive elections.

[Question] This is why you embarked on the campaign for free elections...

[Answer] Yes. A campaign that I think begins by appealing to the intelligence of the Chilean people, by awakening their capacity for rational criticism, because I sense that the authoritarian regime in our country has broadened the channels of obedience, discipline, order and security in our country and destroyed the critical capacity of the average Chilean.

[Question] The idea, you say, is to appeal to people's intelligence. But 2 years ago you said that "the Right has been uncultured and has abandoned the field of culture, the mind, universities..." I imagine that you would like the Right to take part in this campaign for free elections...

[Answer] Obviously. I think that it can hardly not. The best demonstration of this is Rivadeneira's remarks, I think. Now then, you have seen the negative reaction of some segments of the Right to Rivadeneira's comments. I think that the reaction against what the president of RN is proposing comes from the stupid, blind and acritical Right that exists in the country.

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CHRISTIAN DEMOCRAT CANDIDATES EXAMINED

Santiago QUE PASA in Spanish 2-8 Apr 87 pp 6-7

[Article by Patricia O'Shea]

[Text] They walked into the building at Agustinas 1022 one by one around noon. Adolfo Zaldivar's office. Who were they? A group of Christian Democrat (DC) leaders, from the "guaton" [fat cat] wing and from the group called "los magnificos," which is headed by the youngest of the Zaldivars. It was not a long meeting. But it had to be held that day. Clearly, this week would revolve around the visit of the Holy Father. In any event, who cares about politics or politicians these days?

Truth to tell, they all realized that this 4-month period would be a "loss" in political terms and that the pope's departure would mark the beginning of a year in which, as the government has described it, the political debate will be primarily electoral. Therefore, they were taking advantage of the few working weeks in the month to tie together electoral strategies, hopefully very tightly.

Everyone is waiting for the DC to take a stand. And it was for this purpose that the group met in Adolfo Zaldivar's office. They had to reassess what sort of campaign they would conduct for the election of a party president this June. The campaign promises to be the focus of political debate in April and May, but when the time comes for answers, it could disappoint many.

Fence-sitting seems to be the "maxim" of the DC. It was the approach they took regarding political parties. It was the approach that Valdes took as far as his running for reelection was concerned. Perhaps Pinochet's maxim in this regard has won them over. He takes a stand on nothing. Everyone else assumes, speculates and takes stands. And he remains noncommittal: "You never reveal your own strategy to your adversary. Otherwise, he will destroy it."

What is in the offing for now? Candidates have already been nominated. Estimates are being made of the strength of each and of what would happen if one or another were to triumph. QUE PASA has received a rough outline of each candidate's chances. For the time being several groups are taking shape:

--Osvaldo Olguin, a physician, perhaps represents the DC's most moderate choice. His candidacy has been read in different ways, however. Since he is generally classified as belonging to the fat cat wing of the DC, his bid for the presidency has been sponsored mainly by Adolfo Zaldivar's group, whose stands do not square with those of the fat cats in many areas. Estimates are that this group represents close to 10 percent of the DC's rank and file, although at the most recent National Assembly they represented around 12 percent. His position on political parties is that registration is a must.

His candidacy this time around is said to be just a test, and it would seem as though while his proposals were welcomed on the political Right, his rating among the members of the National Assembly (about 250 delegates) was low. He reportedly has no chance of winning. This leaves the second group in the campaign in a better position.

--Andres Zaldivar and Juan Hamilton head it. Gutenberg Martinez and Enrique Krauss also belong to it. Estimates are that it represents close to 30 or 35 percent of the DC rank and file, although at the recent assembly it represented 38 percent. Hamilton has already run against Valdes. For his part, Zaldivar has clearly been an opponent of Valdes, and on occasions their relations have been quite tense, owing to the comments that they make about each other. The group has not decided who its candidate for party president will be. The feeling is that it will be Zaldivar, because Hamilton already lost once. It depends on who his opponents in the party are and what sort of relationship has to be established with the government. In a negotiation with the Armed Forces, which is regarded as less and less likely, Hamilton would be more at ease than Zaldivar, who was an exile.

They have not publicly spelled out their position on the Parties Law, waiting for the government to further clarify what they will get in return: "If the promises of TV spots are real or just a bluff." They believe, however, that if they had to decide, they would vote yes. Their success depends heavily on who their opponent in the party is.

--Ricardo Hormazabal clearly represents the DC's most radical, "chascon" [shaggy-haired] faction. Supported by Claudio Huepe, Ignacio Balbontin, Benjamin Prado, Jose Ruiz de Giorgio and Jaime Hales, he is a strong advocate of not registering the party under the law and, unlike the other two candidates, leans towards accords with the Leftwing Coordinator (which seeks to reorganize the socialists) and has even mentioned bringing back the political committees with the communists. This group of "chascones" backed Valdes until a year ago and were on his team (Huepe is the party's secretary general). Today they do not support him. This wing presumably represents one-quarter of the party. It has been said that Hormazabal's candidacy was launched more than anything else to force others to take a stand, especially the party president.

--Gabriel Valdes, for his part, has decided to remain silent. Although he no longer has the "shaggy hairs" behind him, he gets along well with them. His backing comes from Raul Troncoso and Eugenio Ortega; these two have been with him in the secretariat and are pro-Establishment, which does not mean that the Frei wing is backing him. This faction is reportedly much more closely linked

to Zaldivar. They are allegedly trying to enlist the support of CIEPLAN economist Alejandro Foxley, whom many see as a man with a political career ahead of him in the near future. The group reportedly has one-quarter of the voters behind it.

Fence-sitting has enabled them to gain time. Last week Valdes delivered an uneventful speech that was, however, his opponents in the party felt, much more moderate than the ones he gave last year. Many were hoping that Valdes would commit himself on his candidacy or on the Parties Law. He will not, although the assumption is that he believes in registration.

If He Runs. If Valdes runs, many things change inside the party. If he takes up the stands of the "shaggy hairs," they will withdraw Hormazabal's candidacy, thus achieving their goal of forcing Valdes off the fence. He would receive total support from the Left and close to half the votes. In that case, Andres Zaldivar would surely run and he would have the backing of all of Olguin's faction, which would make up the other half. Who would win? There are those who contend that if Zaldivar does, a small leftist splinter group will form, just as the people who today belong to the Christian Left and MAPU [United Popular Action Movement] formed one in their day. It is very unlikely that Hormazabal will win or that Valdes will be reelected...

Therefore, many already feel that the solution will be "typically Christian Democratic": a consensus candidate will be sought. A compromise. Thus, many could wind up disillusioned when this chapter draws to a close. The fifth option is already available.

--His name is Edgardo Boeninger. He is supported by the intellectuals', the technocrats' faction. Sergio Molina, Eduardo Frei and Genaro Arriagada. His ideas have been publicized through his studies center, the CED [Development Studies Center], which has made Valdes angry more than once.

A variety of comments are forthcoming about a Boeninger candidacy. Some feel that this group has pull among the intellectual elite but none among the rank and file. Others argue that if the DC opts for a compromise candidate, then the party will still be sitting on the fence. The shaggy hairs will be on one side of the Political Commission, and the fat cats on the other, and the decisions will be of the "there are no alliances with the MDP [Popular Democratic Movement]...except..." variety. Other believe, however, that Boeninger has been able to surround himself with people who will make possible the interparty alliances that the DC is seeking, in other words, with moderate Socialists and the Right.

A No From the Junta. The campaigns also depend on what happens in the Government Junta regarding the constitutional reform. Christian Democrats felt cheated once again when they saw what the military was really proposing. The same sort of wishful thinking that led them to see Danus as their big chance made them believe that Matthei was their man this time. A gross blunder. What many circles had been saying for some time about the unlikelihood that the Armed Forces would alter the system of succession was confirmed by Merino's and Matthei's statements.

Stange's remarks, to the effect that the Junta would meet around this time to deal specifically with this issue, caused many to harbor secret hopes. It was hinted that the public statements of these three members of the Junta stemmed primarily from negotiations among them. According to this account, Stange had proposed that once the pope left Chile, the Junta would take a public stand on the issue and explain its reasons. The idea was that there would be a definitive pronouncement. According to reports gathered by QUE PASA, Stange said that his words had been misinterpreted. He clarified this at the cocktail party that General Matthei gave at his home to mark the anniversary of the Chilean Air Force. He personally told Matthei and President Pinochet.

Whether or not such internal negotiations are going on (and we tend to think that they are not), one thing is clear: the unanimity that the Junta needs to undertake a reform is not there. Therefore, there will be no reform. Whether or not there is a public pronouncement, this fact will have a very important impact across the political spectrum.

The movement for free elections will have been defeated before the fact. Is it worth it to wage a battle that you know from the beginning is lost? Wouldn't it be better to begin another campaign, one to make sure that the candidate is not Pinochet or that if it is, the no votes will win? These are questions that one source posed.

The effect on the parties will be to radicalize them. The positions of a Hormazabal will gain ground in the DC. This, in turn, will have a major impact among the socialists. Because Hormazabal's position is so radical on issues such as registration under the Parties Law, he is already taking away political space from the new breed of socialists who are trying to emerge and consolidate themselves amid a socialist world that is increasingly tempted to repeat the UP [Popular Unity] coalition.

We can assume that positions will grow more radical here too. This could be seen coming for quite some time, though the trend has grown stronger recently, especially after Almeyda's arrival in the country. He has what they call historic legitimacy, unlike Lagos, who was a radical, or Nunez, who is not a leader, or the intellectuals, who no matter how sensible they sound to the Right, offend the rank and file. The socialists have to commit themselves. On their stand will depend the decisions of the DC, which has, it says, attached a higher priority to its alliance with the socialists than to its alliance with the National Party. The DC has been losing patience in seeking a coalition with them because their outlines have become blurred, the Christian Democrats allege.

Therefore, the time for a decision has come: If the socialists decide to join the Leftwing Coordinator, the DC will go its own way. If they decide to continue with the DC, the idea would be for them to register separately as a party but pursue a common strategy and program. Even though the same people who have belonged to several of the well-known defunct alliances are involved in this coalition, they deny that it is just another such alliance.

All of this will become clear when the pope is no longer here. A rightist politician remarked somewhat disillusioned that the visit has brought the country to a standstill but that the truce will be short-lived. They are all like racehorses at the starting gate, and when he leaves, a wild electoral race will be under way.

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CHILE

SOCIOLOGIST REMARKS GROWING EGOTISM WITHIN SOCIETY

Frankfurt/Main FRANKFURTER RUNDSCHAU in German 25 Mar 87 p 10

[Article by Rojas Hernandez, University of Hannover, part 1 (only) of 2-part series: "Egotism Becoming Basic Outlook of Chileans"]

[Text] The military has been ruling Chile with an iron fist for more than 13 years now. The 11 September 1973 coup, the overthrow of the Allende government and the murder of the democratically elected president not only marked the beginning of a brutal reign of terror but also the start of a process of transforming Chilean society according to the wishes of the military men. Chilean sociologist Jorge Rojas Hernandez who now works at the University of Hannover deals with these changes under military rule, with their negative impact on the labor movement and with the present state of the opposition in an article which will shortly appear in No 3/1987 of WSI-MITTEILUNGEN. This newspaper is pre-publishing Rojas' analysis of Chilean society, entitled "The Military vs. Civilian Society."

The military coup of 11 September 1973 was more than just a run-of-the-mill Latin American putsch. It was the aim of the military men not merely to overthrow the democratically elected Allende government so as to replace it with some other government. Their real aim was to destroy the labor movement along with all existing democratic institutions of Chilean society once and for all; to effect a violent break with an old democratic tradition. It was their aim to transform society from the ground up. The state itself, the labor unions, social organizations and the social and cultural life of the country as well as life styles and patterns of thought, relations to the outside world and human and family relations--all these were to be transformed. The goal was to eradicate more than 100 years of history.

From that point on, major stages of development in Chilean history were described as having been thoroughly negative with special emphasis on those phases in the course of which the parliamentary system became more stable and democratic, providing wider segments of the population with an opportunity for participation. Thanks to the role played by the Chilean working class, its labor unions and its political parties, the political system had undergone a progressive and profound democratization process. For this very reason, the abovementioned break is of such historical significance. Today, at the end of more than 13 years of military dictatorship, Chilean society has undergone a

fundamental change. A new and stable system could not arise out of this. The military men presently face similar (and in some instances even more serious) problems to those which supposedly prompted them to intervene in 1973.

In order to build a new society, it was imperative to destroy the foundations of the old. The total abolition of parliament, of political parties, social and labor union activities and the militarization of the educational system as well as the rejection and disdain for all social and political institutions are basic components of this new bourgeois power strategy. The only segment of society which continues to exist as it always did is the military. At the same time, the state has been reorganized under the leadership of neoliberal economists. The goal of this strategy has been to disorganize society completely, to isolate the individual and to subjugate him by reducing his social environment to a minimum.

The implementation of this power strategy combines two basic elements: the economic neoliberalism of the Chicago School and the geopolitical concepts of the Chilean general staff. The former calls for the introduction of a pure and unfettered market economy devoid of any type of protectionism, intervention or statism and, above all, devoid of any interference from political organizations or compromises between individual groups, classes and the state. Disorganization, privatization and depoliticization of society constitute the basic elements of this neoliberal strategy.

"Democracy of the Marketplace"

The marketplace, it is said, develops around the center of all human activity and may therefore be viewed as the sole liberating force in the history of mankind. It is here that human beings are able to make and to implement their own decisions. By means of their ideas and dreams they create a kind of "democracy of the marketplace," thereby transferring sovereignty to the everyday exchange patterns of the marketplace. This, in turn, leads to the conclusion that political and democratic systems become superfluous wherever the marketplace is able to operate freely. Anyone capable of reaching decisions within the parameters of this marketplace is in no need of a parliament or other political institutions to help him reach such decisions.

By means of such a strategy an entire society may be depoliticized. By this means an attempt is made to regain the monopoly of power and political life for the bourgeoisie which is to be represented at the helm of the state by a military caste and by neoliberal technocrats who themselves represent the most influential economic groupings. It is the goal of this isolation and depoliticization process to destroy the gains in power achieved throughout history by the labor movement and poorest of the poor. All this has been taking place in Chile for the purpose of resurrecting the bourgeoisie on the basis of a neocapitalist pattern of accumulation. By destroying solidarity and the socialization of society and human beings, social relations and common interests are being destroyed. Everything that is social and political is virtually branded as being criminal. By means of propaganda, new educational methods and altered working conditions extreme individualistic egotism is being fostered. It has been elevated to one of the mainstays of this society because its mechanisms alone guarantee that the necessary competitive spirit

will prevail. The struggle for survival has become a means employed by this strategy whose ultimate goal is to help the market economy achieve total victory.

Through the application of geopolitical doctrines (the East-West conflict), the military leaders brought about a forcible degradation of civilian society which was to be subordinated to their ideas, perceptions and military hierarchy patterns. Military perceptions are based upon the logic and the laws of warfare. The military leaders view it as their paramount task to safeguard the survival of the state which allegedly faces a constant threat of "total" war between East and West. The Chilean armed forces, too, are strongly influenced by this perception and therefore feel called upon to destroy the "internal enemy of the state." The "internal enemy"--those are organized workers, social organizations and political parties. The war inside the country is being waged against the Chilean people; a people which, it is said, is being manipulated from the outside. This war is part of the total war or, in other words, it is the national expression of the international "total" war.

By means of iron military discipline the country is to be totally regimented and society is to be abased. This absolute hierarchization, in the view of the military men, sets the stage for the practical application of their laws of war and the concrete fulfillment of the demands of "total warfare." All those who oppose this new order are declared to be its enemies or are viewed as having been infiltrated by the "external enemy." "Subversive" is the opposite of "national" and thus the opposite of "Chilean." To be "subversive" is to be in league with a foreign power on the national battlefield of total war. For this reason, the social forces need to be suppressed. But this is not achieved by political means but by means of military combat strategies. The enemy is imprisoned, banished, tortured, exiled or murdered. A veritable war of annihilation! A combination of psychological warfare and physical terror!

There is a close connection between the neoliberal economic strategists and the Chilean general staff. Disorganization, atomization and depolitization of society were the indispensable prerequisite for the installation of Darwinist market precepts (survival of the fittest in the struggle for scarce natural resources) in the center of society. They were equally indispensable for the expansion and hegemony of military power over society.

Famine and death are the inevitable outgrowths of the ruling system of "natural scarcity" and of the unequal struggle for survival. Military men are incapable of taking the long view, beyond the confines of the power structure of the state. What counts is not individual survival but the maintenance of power. Under these circumstances, the annihilation of a part of the Chilean population would be a direct outcome of that neoliberal concept of "natural" scarcity of resources and of the geopolitical necessity to destroy the enemy. Under normal conditions, people tend to object to such natural annihilation by the marketplace and tend not to accept being treated as outcasts. They offer resistance and organize in order to ensure their survival.

But there are still other areas of agreement between the monetarists and the military leaders: the belief in the technically neutral nature of economics

and military doctrine and the uses of cruelty "for good ends." The former finds expression in a general disdain for anything which has to do with politics, e.g. politicians, their political parties and democratic institutions. The latter finds expression in the systematic practice of cruelty as a new form of life.

A New Macchiavellianism

Like Macchiavelli, the Chilean military leaders are convinced of the "good purposes" of their cruelty. Macchiavelli once said that the rulers of a state should practice every type of cruelty only once but to do so effectively in order not to have to repeat it at some future date. In September 1973, the general staff of the Chilean armed forces operated according to this principle but these same violent methods against the people have been repeated again and again until this day. Between 1983 and the present they attained particular intensity. There was a massive wave of arrests, of oppression and military blockades of workers' quarters. Pain and anxiety continue to be the means by which the regime maintains itself in power. Systematic cruelty which serves to exclude thousands of Chileans from work, consumer goods, health care, cultural activities and from their political rights are the monetarist appendages of military doctrine.

Up to 1980, Chile was considered the best example of a budget-cutting policy and the implementation of neoconservative capitalist strategies. The supreme goal was to free the nation from its "excesses," its large expenditures, its ailing economy, its high rate of inflation and its "excessive wage costs" in order to achieve a new kind of accumulation within the framework of the market economy. Chile served as a testing ground, above all for the likes of Hayek and Friedman, the theoreticians of the Chicago School. The international financial world was equally enthused about the Chilean model. As a consequence, the country received large infusions of capital.

But this capital only accrued to the most influential business groups. It was used to buy up state-owned industries at bargain prices as part of the privatization program and to import a wide variety of luxury consumer goods. Transnational corporations (above all North American ones) purchased property rights to the most important natural resources of the country, particularly the newly discovered copper fields. These monetarist practices resulted in an extreme concentration and centralization of capital in Chile, aided and abetted by international finance capital. The promotion of "external economies" rapidly resulted in mounting debt which increasingly made Chile's economic development hostage to credit policies.

As a consequence, dependence on the export of Chile's own raw material reserves and non-traditional products is constantly increasing. This unconditional opening to the world market has accelerated the dis-industrialization process as well as the satellite role played by the Chilean economy on behalf of the international centers. The weaknesses and inherent contradictions of this economic model have led to massive failure.

Inadequate protection of the productive sector and its emasculation have put an end to the industrialization process which began in the thirties. Chilean

industry was powerless to survive this forcible opening to the world market. For this reason, most industrial concerns became victims of this invasion. All this is taking place within the context of the new strategy of restructuring the international division of labor, with the new role assigned to Chile being that of an exporter of raw materials and farm products.

Due to the inadequacies of the Chilean infrastructure, the rapidly growing export rate soon reached its natural limits. This trend was abetted by the protectionist measures of the international markets; but productive activities were not subsidized at the same time. The loans obtained were used almost exclusively to create a small, artificial consumer society. The deterioration of the world economic situation since 1981 has exacerbated the "debt crisis" of the Chilean economy. The Reagan administration's high interest policy and the restrictions imposed by the IMF have played a major role in compounding this permanent, insoluble crisis. But the economic crisis faced by the regime is now beginning to turn into a political crisis.

The social changes have hit the labor movement as a whole, its various components and the labor unions very hard. It has been widely dispersed. The new economic policy has caused serious harm to industry, i.e. to the very sector of the economy in which labor has historically been most active. This is where the labor unions were strongest and where the political parties of the left were most influential. More than 250,000 jobs have been lost in this sector of the economy; an estimated 3,500 companies had gone bankrupt by the end of 1983.

All these losses struck organized labor where it was most vulnerable, cutting into its membership and reducing the strategic importance of the Chilean labor and union movement within the society. The material basis for working and living conditions underwent a drastic change; the manpower structure underwent a fundamental change. In 1970, 51.6 percent of the labor force was employed in production and 48.6 percent in goods and services. In 1980, the corresponding figures were 39.2 in production and 60.8 in goods and services. This clearly reflects the changeover from an industrial to a service economy. The restructuring of the labor force has had a profoundly negative impact on the labor union movement as a whole. If one correlates the two figures, then the number of those employed in the service sector appears inordinately high. The number of employees in public transportation, commerce and banking as well as the number of self-employed keeps growing. The rapid increase in the number of small traders, door-to-door salesmen and street vendors is a clear indication of the widespread impoverishment of large segments of the population.

Ever since its inception, the new accumulation model has been accompanied by a high jobless rate. Between 1974 and 1986, the average was 20 percent. The consequences of this structurally conditioned unemployment can be felt quite clearly by the labor unions. In many instances, the marginalization of the labor market has also acted as a factor destructive of family ties and as an obstacle to any hope for social renewal. The difficult struggle for naked survival frequently acts to destroy all sense of solidarity.

The labor movement has thus been shrinking in size. In 1973, there were some 950,000 organized workers in Chile, distributed among 6,692 separate trade

unions. By 1986, their number had decreased to about 400,000 workers belonging to some 5,000 unions. Since most workers are organized in small or medium-sized factory unions and these do not constitute one large unit, their negotiating strength and their ability to bring pressure to bear are diminished.

Consumerist Craze

The widespread adjustment to market mechanisms, greatly facilitated by a variety of factors such as supply, advertising and attractive payment plans, has not failed to make an impact on the working population and its labor unions. The development and large-scale use of a purchasing system relying on installment buying have served to enhance confidence in the marketplace. At times, a veritable consumerist craze gripped the entire population. At that time, there were even some labor unions which supported the conformist trend prevailing among their membership by instituting concrete measures and services. This virtually "neutralized" the unions' activities and at the same time the depoliticizing trend began to gather momentum--particularly during the economic recovery phase between 1977 and early 1981. At that time, wages were raised slightly after a period of drastic reductions. But the economic crisis has put a sudden end to all these economic castles in Spain, since shortages and the artificiality of the economic model have all but discredited the notions of the Chicago School. Only now did the consumers comprehend the false promises of "marketplace democracy." Lack of food and growing marginalization tend to arouse a protest posture among non-consumers in no time at all. Resistance to the system is growing.

There have been three stages in the development of the union movement. The first phase lasted from the 1973 coup until 1978 and was marked by the suppression of all social sectors: atomization and the outlawing of labor unions are used to annihilate the "internal enemy." CUT, the most important of the Chilean labor unions, has been outlawed. Outlawed as well are all types of union elections and meetings as well as wage negotiations and strikes. According to the ILO, there were 35,000 labor union officials in Chile prior to the coup. By the middle of 1974, their number had dwindled to some 17,500. Most of them had been dismissed, imprisoned, murdered or exiled. Within a very short period of time all union achievements were invalidated. Anything like a genuine labor movement does not exist at present. The unions have adopted a defensive posture and are trying to maintain the scant, extremely limited freedom of action they do enjoy. As these difficult years go by, the meaning of labor unions as tools and weapons of the working class is becoming increasingly lost. As a consequence, a labor union opposition is beginning to emerge against arbitrary policies and the systematic dismantling of union achievements. It is turning to the government, seeking to take advantage of its inherent contradictions in order to regain more room to maneuver. At the same time, union officials loyal to the regime and appointed by it are trying to act as an apolitical arm of the union movement and as a mouthpiece for the government which uses them without granting any sort of representative status to them. As for concessions to the abovementioned opposition, the regime will not hear of any.

9478
CSO: 3420/20

EL SALVADOR

ARMED FORCES ISSUES WARNING TO POPULATION

San Salvador DIARIO LATINO in Spanish 27 Mar 87 p 21

[Text] On 23 March 1987 the armed forces of El Salvador used the media to issue a warning to the Salvadoran people, telling them not to be surprised by an increase in terrorism. Military intelligence has reported the intentions of the FMLN-FDR to step up urban terrorism in the capital city, in response to its recent setbacks in rural areas, as a means of reducing armed forces' pressure on the FMLN.

On 23 March, an urban commando group attacked a group of civil defense patrols in Colonia Santa Fe, San Marcos, taking two G-3 rifles and hand grenades from them.

On 24 March, citizens witnessed open provocations by a group of demonstrators against security forces assigned to protect various points of the capital city. This provocation by the FMLN-FDR, together with the UNTS, was unsuccessful, due to the professional behavior of the armed forces of El Salvador.

On 25 March at 0930 an urban terrorist commando group of the FMLN-FDR ambushed a National Police auto patrol on Boulevard Venezuela near the intersection of 7th Avenue South, assassinating two police agents. In addition, at 1000 another urban terrorist commando assassinated one National Guardsman and wounded another during an ambush on the street leading to the Picacho [peak] of the San Salvador volcano.

On that same day, at 1020 a terrorist group was distributing FMLN-FDR propaganda in San Jacinto Park, carrying concealed weapons of various calibers, prior to their seizure of the Jorge Larde Unified Urban School no 1, where they held 947 students and 27 teachers hostage. The hostages were threatened with death for several hours until they were rescued by members of the security forces who went to the school to protect the citizens.

When ordered to surrender, the two terrorists who had taken over the school laid down their weapons before the agents who entered the school. These were the same G-3 rifles that had been stolen several days earlier during the attack on the civil defense patrols in San Marcos.

The man was identified as Alexander Alvarez Candena, the same person who led the attack on the civil defense patrol in San Marcos, a terrorist who had infiltrated the CITFA [Armed Forces Communications Training Center]. His real name is Juan Francisco Medrano Iraheta; he had deserted 3 days earlier, upon learning that he was under investigation by military intelligence for his terrorist connections. In his statements to the national press, the terrorist said he had been a member of the FMLN since 1981, that he wanted to go to Nicaragua via Mexico, and he called his commanders, Shafik Handal and Joaquin Villalobos, telling them that the place had been taken with 10 other comrades.

The woman was identified as Gloria Noemi Escobar Guzman, known as "Nena." It was reported that she accompanied the male terrorist during the actions against the civil defense personnel and during the propaganda distribution in San Jacinto Park.

This terrorist action has outraged the citizens; it is a flagrant violation of human rights by terrorist FMLN-FDR groups. It doesn't seem to bother these terrorists to shield themselves behind children. This action has received nationwide condemnation, expressed in communications by teachers, parents, by the students who were held against their will, and by all of the Salvadoran people.

By this deed, the FMLN-FDR has just demonstrated its absolute lack of restraint, caused by its frustration in not being able to accomplish its objectives of seizing power by armed means, or more specifically, in not having the people's support in carrying out its aims. In this way they are showing their decision to cowardly assail a nation that is struggling to strengthen its democratic process.

In reporting to the citizens the successful outcome of this operation, in which all the hostages were rescued alive, El Salvador's armed forces repeated to the parents their determination to protect the lives of all Salvadorans, especially the lives of children threatened by terrorist aggressors. They also denounced the increased escalation in urban terrorism, and stated that they will remain steadfast in their commitment to defend the democratic process.

7679
CSO: 3248/285

EL SALVADOR

MAGANA CALLS LAW UNCONSTITUTIONAL

San Salvador LA PRENSA GRAFICA in Spanish 3 Mar 87 p 7

[Editorial: "Reforms in Election Law Challenged"]

[Text] Dr Rene Fortin Magana has filed a legal challenge, urging that the reforms in the election law decreed in December 1986 be declared unconstitutional. In this challenge, Magana is representing opposition factions in the Legislative Assembly.

The well known attorney and Deputy feels that the changes made in this law flagrantly violate the provisions of articles 208 and 209 of the constitution. These articles contain the basic regulations governing the operation of the Central Elections Council, and were designed to guarantee the free exercise of the right to vote. The reforms that are being challenged as unconstitutional distort the representation of the majority political parties in the Central Elections Council, taking away their possibility of intervention and their decision-making powers in administrative matters, and instead granting these powers to the president of the council. Moreover, this official is the representative of the party in office. This clearly confers advantages on whoever is in power, thus destroying the principle that the supreme authority in terms of election matters is a collegiate body, as provided by the constituent legislator in the Constitution of 1983.

Explanations abound on the reasons for egalitarian participation of the three members of the Central Elections Council. It is quite evident that reciprocal control and vigilance are desired, so that the abuses of the past will not be repeated. Thinking that the reforms create no risks, and that they will give this board greater efficiency and effectiveness is being naive, says the plaintiff, Dr Fortin Magana. And in fact, it is sufficient to take into account the power granted to the president over the staff of the institution; this increases his influence and authority, to the detriment of the other council members.

This singular legal challenge once again puts our judicial system to the test, to determine whether, acting with independent judgment, it will maintain the principles of our Political Constitution in force.

7679

CSO: 3248/285

EL SALVADOR

RAMPANT FOOD SHORTAGES BLAMED ON CORRUPTION

San Salvador LA PRENSA GRAFICA in Spanish 9 Mar 87 p 7

[Editorial: "Irregular Supplies of Essential Commodities"]

[Text] Many protests are arising now from various sectors of the population, both in the capital and in the interior of El Salvador, because of irregular supplies of essential commodities.

Distributors of foods which can be obtained through the IRA [Supply Regulation Institute] are constantly complaining that they do not receive their orders on time and so have no stock on hand to sell to the public. When it isn't a shortage of sugar, it is powdered milk or some other product that the consumer needs. And it isn't true that this abnormal situation is due to failures in the transport system, for even without them, the supply problems persist.

This new national problem, which stands in contrast with official information and announcements, is seriously hurting the people's budgets. Just a few days ago, there were reports of a shortage of the brands of powdered milk that the IRA sells for relatively low prices, while other brands were available, but at much higher prices. Moreover, coinciding with this food shortage, there have been reports in the media in both Honduras and here in El Salvador that IRA products are being smuggled into Honduran territory. These products are then sold in Honduras at very advantageous prices.

It is regrettable that these shortages occur, hurting the people, at times when food prices are one of the biggest worries facing Salvadoran families. Supplies of basic consumer foods should be given preferential handling, for if food supplies are cut off, great nutritional harm will result, which will primarily affect children at a time that will have a decisive impact on them for the rest of their lives.

It would be reprehensible, and an extreme degree of corruption, if this shortage were due to unscrupulous manipulations of the foods that are kept primarily to meet our people's needs.

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CSO: 3248/287

EL SALVADOR

ENGINEER WARNS OF IMPENDING WATER SHORTAGES

San Salvador LA PRENSA GRAFICA in Spanish 30 Mar 87 pp 3, 45

[Text] Just as CEL is in a state of crisis this year, next year ANDA [National Water and Sewer Administration]—and consequently the Salvadoran people—will be facing a crisis, said agronomical engineer Carlos Eduardo Bonilla Barahona.

The engineer is issuing one more warning, but a chilling one, about the serious crisis facing El Salvador, a crisis that is bringing us an energy shortage of major proportions, one which represents the beginning of the end of the Salvadoran territory's natural resources. In addition, he described for us 15 major problems which have a direct impact on the nation's grave environmental situation. He identified these problems and suggested solutions for them.

These solutions, he said, will only work if the people in authority in the government, professionals, and the people in general truly become aware of the massive destruction of our natural resources, and of the "catastrophic" consequences of this destruction for El Salvador.

Problems Identified

First of all, he cited our history as one of the problems, for we have inherited from our cultural and sociological past a disdain of nature. This can be corrected by inculcating in our children a love of plants and trees and of nature in general, a love that can be instilled by teaching them to care for a plant, tending it from the time they plant the seed until its growth is complete.

The second problem he identified is the energy crisis. It will not be solved by building more dams, he said, but rather by reforesting the entire country. That leads us to the third problem, which is a most serious matter: the deforestation that has been taking place for industrial purposes, for household cooking, and an indiscriminate cutting of trees for a variety of uses.

The government has a moral obligation to its people, he said, to act energetically to halt this destruction of its trees, and not just to talk and make statements without doing anything, for deforestation is the principal reason why our reservoirs and dams are not filled, and next year, it will be the principal cause of our shortage of drinking water, since the underground water table will continue to shrink below El Salvador, and the water levels in existing wells will drop. The government is only reforesting some sections, completing ignoring the fact that there are whole northern, eastern and coastal areas that have been totally deforested.

As a fourth point, he mentioned the indiscriminate use of fertilizers, which have damaged and abused the soil, eroding it, causing an exaggerated growth of aquatic plants in our reservoirs and dams. These plants in turn produce irreparable damage, and their sedimentation, combined with erosion, reduces the capacity of our reservoirs. The population explosion, he said, is another problem causing deforestation, for in order to remedy the housing shortage, families cut down trees to build houses, without afterwards planting new trees. In addition, the tile and shingle-making industries, like rural cooking, are using up the few resources we have, as they consume a good deal of firewood. The idea is not to replace the use of firewood as fuel, but to improve its use, and also to manufacture more efficient ovens and stoves that will generate more heat and burn less firewood, thus naturally decreasing its consumption.

Government Mismanagement

In addition, the engineer pointed out the government's poor management of agriculture, for it has never allowed professional associations involved in agriculture to take part in making major agricultural decisions. The latest promotions announced in the area were of electronics engineers, doctors, veterinarians, rather than of agronomists who are aware of the problems and knowledgeable about what must be done technically to remedy them, without politicizing the issues.

Another point he mentioned is the poorly oriented reforestation program, which plants trees that are useless, while there are dozens of fruit trees in El Salvador, trees that are suitable for firewood. They do things such as planting trees that shed their leaves when shade trees are needed, or trees that break up the soil when ornamental trees are desired. There is no well planned reforestation program, he said, one that would teach people what to plant and how to plant, depending on the climate, area, the plant's habits, etc. This emphasizes the lack of environmental education; we must recover awareness in this field, teaching our children how important it is, by using specific materials in educational programs.

Finally, he spoke of the last problem, the lack of awareness among our citizens. He made an appeal to professional and union associations,

cultural and service organizations, and other groups of all sorts, asking them to include this topic on the agendas of their general meetings and to point out its true importance. In this way, at some point in time we may all be able to work together to recover our natural resources.

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CSO: 3248/287

EL SALVADOR

GOVERNMENT INACTION FOLLOWING EARTHQUAKE SCORED

San Salvador LA PRENSA GRAFICA in Spanish 10 Mar 87 p 7

[Editorial: "Many Are Homeless as the Rainy Season Approaches"]

[Text] The thousands and thousands of people who lost their homes because of the devastating earthquake on 10 October 1986 represent an extremely serious problem.

This was a great calamity, coming on top of the many calamities already being borne by the Salvadoran population in general, and by the population of the capital in particular. Here we have the largest numbers of unemployed, here crime is a more common occurrence, with an abundance of minor offenses. Here there are assaults every day, and the streets of the capital grow more and more unsafe, while the steps taken by the security forces grow less and less effective.

These are fateful times the Salvadoran people are living through. They have been battered by the blind forces of nature and by the blind policies of men. For the earthquake was destructive, and the government's policy is also destructive. That is a widespread judgment, a feeling that is heard and expressed everywhere.

These comments are the result of our national situation. Within this context, it must be recognized that the government has been sinning both by commission and by omission. In the first category, it has been committing outrages in economics, which have worsened the situation in every way. Unemployment is higher, there are more people without jobs, and there are greater causes for social unrest.

The government has also sinned by omission, for by this time it should have brought about some improvement in the conditions in which the earthquake left so many thousands of Salvadoran families. What it has done bears the stamp of charity--like distributing food instead of providing incentives for creating jobs. What it has done is to close its eyes to the misery of people living in shanties, instead of providing decent temporary housing.

The rainy season is now drawing near, and these precarious shanties afford no suitable protection from winter storms. It is not worthy of a real government to allow this to happen, to allow it to drag on, hurting the citizens.

These homeless souls are crying out, sending an SOS before the arrival of the rainy season.

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CSO: 3248/285

EL SALVADOR

STEINER ELECTED ANEP PRESIDENT

San Salvador LA PRENSA GRAFICA in Spanish 3 Apr 87 p 25

[Text] Victor A. Steiner has been elected president of the executive board of ANEP [National Private Enterprise Association].

A press release from ANEP announced his election. The text of this release follows:

ANEP, the National Private Enterprise Association, reports that at a general meeting held in its offices on Wednesday, 2 April 1987, the members of its new executive board were elected, replacing the members who have completed their terms in office, in accordance with the association's bylaws.

The persons elected are: Victor A. Steiner, president; engineer Eduardo Funes Hartmann, vice president; engineer Ruben Ernesto Pineda, secretary; Pablo Rodriguez, deputy secretary; engineer Jose Napoleon Bolanos, treasurer; and architect Mauricio Lima, deputy treasurer.

The election of the new executive board was unanimous. In Mr Steiner's case, this was in recognition of, and a vote of confidence in his efforts to protect El Salvador's free enterprise system.

As president of the chamber of commerce and industry in El Salvador, Mr Steiner has worked intensely and tirelessly in the civic, union, and patriotic fields, striving to maintain a climate of full respect for constitutional regulations, so that a true state of law may be created.

This effort has been defined by the call for a 180-degree shift in the government's present economic policy. This means the cessation of interventionist and statization measures which nullify the principles of the market economy system, the most appropriate way to bring about well-being and prosperity for all the people.

Upon being chosen as ANEP's new president, while continuing to serve as head of the chamber of commerce and industry, Mr Steiner expressed his appreciation and renewed his commitment not to falter, but rather to increase his concern and efforts to strengthen and unite the Salvadoran productive sector.

He expressed his conviction that a great deal of work is needed urgently on all levels in order to promote a true national economic recovery that will bring about a substantial improvement in the lives of the Salvadoran people.

He said that ANEP, as a business leadership group, will continue to expend its greatest efforts toward reestablishing a climate of understanding and cooperation. This will help us to arrive at the most appropriate solutions for the sensitive problems facing the nation, in order that we may provide a promising future for new generations.

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CSO: 3248/287

EL SALVADOR

EDUCATIONAL SYSTEM SEEN IN DISARRAY

San Salvador LA PRENSA GRAFICA in Spanish 3 Apr 87 p 7

[Editorial]

[Text] Our national educational system is in a truly deplorable state. Over 1,000 schools have been destroyed or closed for a variety of reasons, reported the ministry of education.

Guerrilla violence has caused an exodus of teachers and students from areas in conflict, thus interrupting education. In other places some buildings have been damaged by vandals or by the most recent earthquake, which caused so much damage in the capital and in nearby cities. All of these unfortunate events have restricted the opportunities of young people to receive an education, because our schools are not operating properly.

The lack of suitable places causes overcrowding in those buildings that are usable. People are aware that some schools have been filled to over twice or three times their normal capacity, with all the imaginable consequences. The schools are so jammed that they lack the most essential facilities. In such conditions, it becomes extremely difficult for teachers and students to do any productive work, for this atmosphere is totally unsuited for educational purposes. In other cases, because of the impossibility of providing adequate space for all the students, the students must take turns, attending their classes for just a few days a week.

In addition to the poor conditions which we have just outlined, we must add the lack of school supplies and teaching materials, which the state is now unable to provide. These materials are being provided, at great personal sacrifice, by the parents.

This difficult situation will have grave consequences for the nation. Illiteracy and school dropout rates are on the rise. In this crisis of major proportions, the educational system needs to be given greater resources if is to overcome these problems.

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CSO: 3248/287

ST VINCENT AND THE GRENADINES

IMF TEAM SATISFIED WITH ECONOMIC PERFORMANCE, PROSPECTS

Bridgetown CANA in English 1530 GMT 10 Apr 87

[Text] Kingstown, April 10--The economy of St Vincent and the Grenadines is expected to grow by four to five percent this year and next year, according to projections by a team from the IMF following a recent review of the national accounts here.

Prime Minister and Minister of Finance James Mitchell, who held discussions with the IMF officials, said they expressed satisfaction with the performance of the economy and were pleased with the economic strategies being pursued by his administration, now into the third year of its term of office.

Mitchell said the officials endorsed proposals to utilise funds from the National Insurance Scheme (NIS) buttressed by funds from the Caribbean Development Bank (CDB) for mortgage financing through the National Commercial Bank (NCB).

I have heard comments from previous people in the management of the IMF who have left saying that that was a very irresponsible position for me to adopt. I am glad to see that those who know about the management of financing consider it a move in the right direction, Mitchell declared.

However, the IMF team noted that the rate of wage increases in the country was outstripping inflation and warned that it could lead to lack of competitiveness in production costs. But Prime Minister Mitchell said he pointed out that as far as his government was concerned, wages in the country were low.

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ST VINCENT AND THE GRENADINES

MINISTER CRITICIZES POLICE LAXNESS IN WAR ON DRUGS

DeFreitas Speech

Kingstown THE VINCENTIAN in English 13 Mar 87 p 1

[Article by Elvis Ollivierre]

[Text]

Vincentian Agricultural Minister, Marcus De Freitas earlier this week, openly condemned the attitude of Vincentian policemen in their fight to combat the drug trade here. Although there had been an indication previously of Government worry, Mr. De Freitas is the first Minister of the ruling NDP Government to criticise so openly the local police force regarding their handling of the local drug problem. He expressed dissatisfaction in no uncertain terms.

The Agriculture Minister was addressing a dinner (hosted by him) with the intention of exposing invitees to the opinions of business and professional leaders from Washington, D.C. on the relevance of Christianity in the professional world. The Minister's feature address was one confessing his religious faith and one in which he spoke out against drugs and the role of the police in this matter.

The Minister admitted that the police have been dealing adequately with the destruction of marijuana cultivation but denied that they have no evidence of cocaine trading here. De Freitas said that the police need to do more and must re-examine themselves. Shortly after his speech, the Minister told journalists that he was prepared to stand by his word.

Mr. De Freitas called for greater unity among the leadership of the country. He noted that the call was not only intended politically but for all sectors of the society.

This country's Prime Minister, James Mitchell, had said recently that the police system was one of the systems the "Drug Mafia" would like to manipulate. Mitchell had noted that his Government was concerned about this problem and would be stepping up vigilance regarding effective methods of control. But the P.M. had also indicated that the police could be the very ones protecting the drug mafia.

Mitchell had said that "if one isn't careful you could find yourself with a well built up police force and have a lot of them using the very guns to protect the drug mafia".

Police Commissioner, Randolph Toussaint answering to related questions from the press last week about the presence of cocaine here, denied its existence noting that the police heard of rumours but had no evidence.

Police Views

Kingstown THE VINCENTIAN in English 20 Mar 87 p 1

[Article by Elvis Ollivierre]

[Excerpts]

St. Vincent's Education Minister, John Horne has called on Vincentians to support the police in their efforts to crack down on a growing drug problem in the state.

The police themselves have been calling on the public to come forward with any information they might have regarding drugs. Commissioner Randolph Toussaint had said recently that the police could not do it all alone without public assistance. The police crack down on marijuana pushers is continuing vigorously.

On Thursday of last week, the Special Service Unit (SSU) of the police force carried out yet another marijuana raid in the Barrouallie area about 7.30 p.m. According to police reports, the SSU

intercepted a car, R 4244 carrying Dominican St. Jean Richardson, a Martiniquan, Duverceau Chautal and Vincentian Raymond Greaves of Campden Park. The three were arrested because they were found with more than 35 pounds of marijuana, police said.

The lawmen further claimed that after thoroughly investigating the case they were led up to another possible connection, Christopher Samuel of Petit Bordel. The police said Samuel was found with 12 pounds of cured marijuana and money amounting to over EC\$8,500. This sum included a number of one hundred dollar notes marked 'D' which signifies Dominica's EC currency, police explained.

Samuel, represented by local lawyer Parnel Campbell, was brought before the court and Senior Magistrate Moet Malcolm fined him EC\$1,500. The money confiscated from Samuel by police was given back to him by the court on the grounds that there are no laws permitting such funds to be withheld from the bearer. Samuel had pleaded guilty.

Inside sources told THE VINCENTIAN that Government is now in the process of revising the laws dealing with drugs. Meanwhile, the court fined the three others who were involved in the marijuana racket EC\$1,000.00 each. They were remanded in custody.

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ST VINCENT AND THE GRENADINES

BRIEFS

DEVELOPMENT PLAN--The Central Planning Unit now has in its possession a Development Plan in respect of St Vincent and the Grenadines, covering the period 1986 to 1988. The plan represents the most comprehensive official attempt since Independence to formulate and present the key objective strategies and policies to be pursued by the Government. Under the heading, growth diversification and redistribution, the plan looks at the activities of the government in the medium term in the interest of stimulating social and economical development. The 150 page document has three sections which review recent economic performance, detail sectoral plans, and describe the administrative organisation for implementation. The St Vincent and the Grenadines Development Plan will be updated annually through the use of a rolling format. This will also give the General Public ample opportunity to offer critical comments. [Text] [Kingstown THE VINCENTIAN in English 20 Mar 87 p 1] /9317

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